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Supreme Court of the United States

OCTOBER TERM, 1962

No. 438

UNITED STATES OF AMERICA,
Appellant,

v.

THE SINGER MANUFACTURING COMPANY.

BRIEF FOR THE SINGER MANUFACTURING COMPANY

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UNITED STATES OF AMERICA,

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against

THE SINGER MANUFACTURING COMPANY

BRIEF FOR THE SINGER MANUFACTURING COMPANY

Preliminary Statement

This case, according to the Government's present contention, now involves three agreements between Singer and Gegauf: a cross-license agreement dated April 14, 1956, an assignment agreement dated December 5, 1957, and an amendment to the assignment agreement dated July 22, 1959. It in addition involved from the beginning and still involves a license agreement between Singer and Vigorelli, dated November 17, 1955, and various other agreements.

Of more importance, this case involves the attitude, motive, intent and purpose of Singer and of Gegauf at various times extending over a period of almost four years. The Government, now conceding that there was no agreement or understanding made by Singer or Gegauf

outside of the written agreements (Govt. Br. 27),[1] relies upon its own interpretation of the attitude, motive, intent and purpose of Singer and Gegauf as reflected (1) in their negotiations for the written agreements, (2) in the agreements themselves, and (3) in literally hundreds of written documents (while, of course, ignoring all testimony presented to the trial court). In its fashion it also relies upon findings and stipulations. The Government nevertheless purports to cover all essential facts in a statement covering less than eight pages of text. In this short statement it resorts extensively to quotations from letters and documents, out of context and without any of the relevant background, for the purpose of conveying the idea that the quotation itself establishes that a particular attitude, motive, intent or purpose existed. (Examples can be found on pages 11, 13, 14-15, 16, 17, 19 and 20 of the Government's brief; for a detailed discussion of a specific example, see pages 15-16, *infra*.)

We consider the statement of facts set forth by the Government to be completely useless. It does nothing to show the actions, attitude, motive, intention and purpose

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[1] The following abbreviations are used in this brief:

R.	—Printed Record
Op.	—Opinion of the trial court
Stip. Par.	—Stipulation of Facts agreed to by the parties and the cited paragraph thereof
Stanford, R.	—Testimony of the named witness
Gx.	—Government's Exhibit
Dx.	—Defendant's Exhibit
Ex. S-	—Exhibit to the Stipulation of Facts
Gx. (S-); Dx. (S-)	—Government's Exhibit or Defendant's Exhibit which is also an exhibit to the Stipulation of Facts
(unprinted), Tr.	—Unprinted Transcript of the Record on Appeal
Govt. Br.	—Government's Brief

of Singer or Gegauf as they actually existed in the context of the contest that went on between them, with respect to which the trial court found: "If one were to describe the attitude of these alleged 'conspirators' throughout, it would have to be in terms of suspicion, wariness and self-preservation. It is most striking that, throughout, their dealings were characterized by an absence of unity or identity of any common purpose or motive." (Op., R. 1693) The picture drawn by the Government would be exactly the reverse.

We believe that this case, involving as it does almost solely a determination of facts and which was before the trial court after a trial held on 22 days and with a printed record alone in excess of 1,700 pages, deserves more than the nimble and adroit but inaccurate and misleading statement of facts presented by the Government and we consider it necessary that we set forth a full statement of the facts from which the attitude, motive, intent and purpose of Singer and Gegauf must be derived and their actions judged.

The district judge who tried this case presided at all pre-trial hearings. Sixteen such hearings were held prior to February 17, 1961 (R. 20) and additional pre-trial hearings were held subsequent to such date (Op., R. 1653). More than 900 exhibits were introduced in evidence ((unprinted), Tr. 2442-2681, 3427-5767, printed portion found at R. 1017-1633, and Physical Exhibits).

Prior to trial, by order of the trial court ((unprinted), Tr. 3285-87), counsel marked written documents to be offered in evidence in red and blue to show the portions thereof they deemed significant and submitted to the district judge written statements setting forth the significance of each ((unprinted), Tr. 3288-3304, 3387-3412).

Briefs.

Almost all documentary exhibits were introduced in evidence shortly after the trial commenced. Counsel argued the meaning and significance of such exhibits for nine days ((unprinted), Tr. 181-1013a; printed portion found at R. 112-452). No facet of any such exhibit, no possible meaning, no possible significance was left unstated, at least to the limit of counsel's ability to conceive of them. After the arguments of counsel on such exhibits oral testimony was received with respect to the various actions of the defendant and alleged ambiguities in exhibits.

The trial court had the benefit of proposed findings of fact, which were detailed and contained specific references to evidence supporting such findings ((unprinted), Tr. 5803-5976, 6114-94), objections to and comments on each party's proposed findings by the other party ((unprinted), Tr. 6195-6244, 6245-6357), and extended briefs largely devoted to the facts ((unprinted), Tr. 3305-84, 6001-6113, 6358-6458, 6459-6644), which covered every fact with respect to which there could be any possible dispute between the parties.

This case was tried by an experienced and able trial judge, and we doubt that any trial judge has given more careful consideration to the evidence in a case than was given in this case.

Statement of Facts

For an understanding of Singer's motive, intent, purpose and attitude in its various actions in this case, including its acquisition of Gegauf Patent No. 1 after it had obtained a license thereunder, it must be appreciated that a member of Singer's Experimental Department, conceived and in-

vented and Singer developed and manufactured the *entire* multiple cam zigzag mechanism which is incorporated in the Singer "401" sewing machine and that the multiple cam mechanism so conceived and so incorporated in the 401 machine embodies, and Gegauf Patent No. 1 covers, the concept of a series of rotary cams having a single retractable cam follower shiftable relative to each other, lengthwise of the common cam axis, by means of a device mounted on the exterior of the machine, in order to select a particular cam for controlling the lateral movement of the needle.

When this is realized it can then be comprehended that every action Singer undertook in obtaining a license under and in acquiring Gegauf Patent No. 1 was to protect its own invention, its own investment and its own product, a product which it both manufactured and sold. As stated by the trial court, "Singer's sole interest was to protect its '401' machine against all infringing machines" (Op., R. 1693).

The Government attempts to avoid the significance of these facts by ignoring them. In its entire brief there is not even the sketchiest description of the 401 machine or of the coverage of Gegauf Patent No. 1.

I.

BACKGROUND OF SINGER-VIGORELLI AND SINGER-GEGAUF NEGOTIATIONS

A. Conception, invention and development of Singer 401 machine.

On April 29, 1953, Ralph Johnson, a member of Singer's Experimental Department who had been working upon the project, completed the design of a new household sewing machine with numerous entirely new features incorporated in it, including a new multiple cam zigzag mechanism (Op., R. 1663-64; Stip. Par. 17, R. 27-28; Gx. 183 (S-14), R. 1295-1321; Dx. 5, R. 1372; Dx. 106, Physical Exhibit). This date was *prior to* the introduction into the United States market of any sewing machine incorporating a multiple cam mechanism (Op., R. 1665; Stip. Par. 21, R. 29; Dx. 5, R. 1373), and *prior to* the discovery by Singer of any similar mechanism (Dx. 5, R. 1373; Gx. 1 (unprinted), Tr. 3427-34). The Government by its statement (Govt. Br. 9) carelessly would leave the impression that this took place after the importation of a Vigorelli machine in September 1953. As above set forth, the design of the Johnson machine, designated the Singer "401" machine, was completed more than four months prior thereto.

The 401 machine is disclosed *in toto*, including all of its various features, in the Singer owned Johnson United States Patent No. 2,862,468 (Stip. Par. 17, R. 28; Gx. 183 (S-14), R. 1295-1321). This new machine was to be Singer's star machine, the top of its line (Op., R. 1668-69; Gx. 190 (S-24), R. 1333; Stip. Par. 88, R. 56-57). Singer, by June 1959, had invested $9,000,000 in it, including $4,700,000 for tooling (Stip. Par. 112, R. 63). In 1959 the

401 machine represented 45 per cent. of the total dollar volume of Singer's entire household sewing machine business in the United States (Op., R. 1669; Stip. Par. 88, R. 56-57).

B. Description of 401 multiple cam mechanism.

The multiple cam mechanism invented by Johnson embodies *inter alia* the concept of a series of rotary cams having a single retractable cam follower shiftable relative to each other, lengthwise of the common cam axis, by means of a device mounted on the exterior of the machine, in order to select a particular cam for controlling the lateral movement of the needle[2] (Dx. 106B, Physical Exhibit; Stanford, R. 585; Gx. 183 (S-14), R. 1313, column 7, lines 61-75, column 8, lines 1-25, R. 1314, column 10, lines 12-21, R. 1315, column 11, lines 12-58). The Patent Examiner in the Johnson application proceeding considered such concept clearly embodied in the 401 mechanism as disclosed in the application and suggested to Johnson for interference a claim covering such concept, *word for word* in the form previously suggested to Gegauf for interference (Gx. 175, R. 1267-68; Gx. 184, R. 1328-29). The Examiner subsequently allowed and there is in the Johnson patent a claim in which *such concept* is specifically claimed *in conjunction with* another feature (Gx. 183 (S-14), R. 1324, Claim 23). Such claim, of course, is wholly subservient to Gegauf Patent No. 1. The Government concedes that Gegauf Patent No. 1, cover-

[2] Whenever used in this brief, "a stack of cams with a single cam follower" means a series of rotary cams having a single retractable cam follower shiftable relative to each other, lengthwise of the common cam axis, by means of a device mounted on the exterior of the machine, in order to select a particular cam for controlling the lateral movement of the needle.

ing the concept of a stack of cams with a single cam follower, covers the 401 machine (Stip. Pars. 92, 93, R. 57-58).

A stack of cams with a single cam follower is the primary and basic Johnson concept and is the basic feature and very heart of the 401 multiple cam mechanism (Stanford, R. 585). A simple examination of the mechanism itself fully demonstrates this fact (Dx. 106B, Physical Exhibit).

An ancillary feature of such multiple cam mechanism is a second follower which may be disengaged from any of the rotary cams and left immobilized or may be engaged and used to take information from a second cam to combine it with information taken by the primary follower (Dx. 106B, Physical Exhibit). This concept is covered by the Johnson patent (Gx. 183 (S-14), R. 1325). Harris and Gegauf having had earlier priority dates than Johnson on the concept of a stack of cams with a single cam follower (Op., R. 1672, 1678), foreclosed the coverage of such concept in the Johnson patent.

C. Conception, invention and development of Singer 306 and 319 machines.

During the period of the development of the 401 machine two other machines with zigzag mechanisms were invented, developed, manufactured and marketed by Singer. These were the 306 machine, incorporating a replaceable cam zigzag sewing mechanism (Op., R. 1664; Stip. Par. 18, R. 28; Dx. 109, Physical Exhibit) and the 319 machine, incorporating a multiple cam zigzag sewing mechanism (Op., R. 1664-65; Stip. Par. 19, R. 28-29; Dx. 110, Physical Exhibit).[3] Sale of the 306 machine was started both in the

[3] The 319 machine was a remodeled 306 machine in which, in addition to a replaceable cam, there was incorporated a multiple cam mechanism consisting of a built-in stack of cams, each with its own follower which could be used singly or in combination to track one

United States and abroad in 1954 (Op., R. 1664; Stip. Par. 18, R. 28). Sale of the 319 machine was started both in the United States and abroad in 1956 (Op., R. 1665; Stip. Par. 19, R. 29). Sale of the 319 machine was discontinued in the United States, except as to a small inventory on hand, in 1957, when it was superseded by the 401 machine (Op., R. 1665, 1668-69; Stip. Par. 19, R. 29; Gx. 190 (S-24), R. 1333). The 319 machine continued to be the important Singer zigzag machine sold abroad, selling in 1957 at the rate of 65,000 machines per year (Op., R. 1665, 1701; Stanford, R. 558; Stip. Par. 19, R. 29).

D. Introduction of multiple cam zigzag mechanisms into the United States and Singer's reaction thereto.

In September 1953, more than four months after completion of the Johnson design, the Italian firm of Vigorelli introduced into the United States a sewing machine incorporating a stack of cams with a single cam follower (Op., R. 1665; Stip. Par. 21, R. 29-30). Singer concluded that it must assume that Vigorelli had invented the zigzag mechanism contained in the Vigorelli machine prior to the time of the invention by Singer of the mechanism to be incorporated in its 401 machine and that it should be presumed that Vigorelli had on file in various patent offices in the world, including that of the United States, patent applications containing claims which would be infringed by the Singer design (Stip. Pars. 24, 25, R. 31; Op., R. 1670-71). Singer, however, felt

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or more selected cams. The 319 machine being of substantially similar construction to that of the 306 machine, except insofar as their rotary cam mechanisms differed, tools for its production and assembly could be prepared in a short period with little expense (Op., R. 1664-65; Stip. Par. 19, R. 28-29). The 319 machine is disclosed in Perla Patent No. 2,810,360 (Op., R. 1665; Stip. Par. 19, R. 29).

confident that a manually controllable means for varying the amplitude of the lateral needle vibration incorporated in the Vigorelli machine infringed three Singer owned foreign patents (Gx. 1 (unprinted), Tr. 3429-30; Op., R. 1670-71).

From that time on Singer continuously sought information as to the extent of Vigorelli or other patents relating to the type of cam mechanism contained in the Vigorelli machines to determine whether any such patent could interfere with the manufacture and sale of the Singer machines any place in the world, including the United States (Op., R. 1670, R. 1674, lines 27-29, R. 1675, lines 24-26; Stip. Par. 26, 1st sentence, R. 31; Stip. Par. 27, 1st two sentences, R. 32; Stip. Par. 31, R. 34; Stip. Par. 32, next to last sentence, R. 34; Stip. Par. 35, 3rd sentence, R. 35-36). In the process, Singer sought information to determine whether it could limit or destroy claims of patents or patent applications claiming a multiple cam zigzag stitch mechanism which might interfere with Singer's machines (Stip. Par. 27, 1st two sentences, R. 32; Dx. 4, R. 1370-72; Dx. 6-9, R. 1376-83; Stanford, R. 463-64; Dx. 19, R. 1392-94; Dx. 21-26, R. 1395-1406; Stanford, R. 485-86).

The first Japanese-made sewing machine with a multiple cam zigzag sewing mechanism was introduced in the United States in September 1954 by Brother International Corporation. This machine, as the Singer 401 and the Vigorelli machine, incorporated a stack of cams with a single cam follower (Op., R. 1665-66; Stip. Par. 22, R. 30).

In April 1955, Singer learned that Vigorelli had introduced into the United States a modified form of its multiple cam machine. This modified form differed from the first machine in that in the modified form the single

cam follower was adapted not only to engage any one of the cams but in addition to engage any two adjacently disposed cams. This idea of taking information from two cams at the same time was embodied in the Singer 401 and 319 machines (Op., R. 1666, 1671; Stanford, R. 466-67; Stip. Par. 23, R. 30-31). This modified machine contained, as did the original, the manually controllable means for varying the amplitude of lateral needle vibration, which Singer felt confident infringed certain of its foreign patents (Op., R. 1671; Gx. 2 (S-1), R. 1018).

By April 22, 1955 Singer had procured copies of two Vigorelli Italian patents, Nos. 497,557 and 507,862, one of which covered the first Vigorelli multiple cam mechanism with its *stack of cams and single cam follower* and the second of which covered the modified form wherein the single cam follower was enabled to track *any two adjacent cams* (Op., R. 1671; Stip. Pars. 26, 27, R. 31-32; Stanford, R. 467; Dx. 10 (unprinted), Tr. 5192; Gx. 2 (S-1), R. 1017-18). The first said patent had a filing date prior to the conception date of the Johnson invention and thus had priority over Singer, both in the United States and abroad, on the concept of a stack of cams with a single cam follower. The second of such patents, covering the concept of taking information from two adjacent cams at the same time, had a filing date prior to the *filing date* of the Johnson *application* but subsequent to the *conception date* of the Johnson *invention*. This had the consequence of giving Vigorelli priority on such concept abroad and of giving Singer priority on such concept in the United States (Stanford, R. 467-69). Thus, on the concept of a stack of cams with a single cam follower, Vigorelli had priority over Singer both in the United States and abroad, and, on the concept

of taking information from two cams at the same time, Vigorelli had priority abroad but Singer had priority in the United States.

By May 2, 1955 Singer had concluded that Vigorelli would dominate both Singer's 401 and 319 machines in many European countries (Op., R. 1672; Stip. Par. 26, R. 31-32). Singer further concluded that, even in the United States, it would not be able to utilize in its 401 machine the ancillary concept of taking information from two cams simultaneously, notwithstanding its earlier United States priority date with respect thereto, due to the fact that a Vigorelli United States patent on a stack of cams with a single follower would enable Vigorelli to prevent Singer from using this basic feature of the 401 mechanism, an obvious prerequisite to the use of a second cam follower (Stanford, R. 469).

E. Purchase by Singer of the Harris United States patent and corresponding foreign patents on June 10, 1955.

In the course of Singer's continuous search for patents which could destroy or limit the scope of Vigorelli's patents, Singer found a United States patent which had been issued to one Carl Harris. This patent disclosed, but did not claim, a sewing machine having a plurality of cams with a single cam follower (Op., R. 1672; Stip. Par. 27, R. 32; Stanford, R. 471). Singer believed, *and the Government has stipulated,* that this patent could be reissued with claims covering the type of mechanism incorporated in the Singer 401, the Singer 319, the Vigorelli and the Brother machines (Stip. Par. 27, R. 32; Gx. 3, R. 1019). Singer believed that such a reissued patent would dominate all such machines because that

patent had been filed in the United States on June 9, 1952 prior to any use or patent priority date then known to Singer (Stip. Par. 27, R. 32).

Singer purchased the Harris patent on June 10, 1955 and on June 16 filed a reissue application setting forth the four original claims contained in the Harris patent, which did not relate to a multiple cam mechanism, and eight proposed reissue claims (Stip. Par. 28, R. 32; Op., R. 1672). Singer knew that not only it but anyone else could purchase this patent and file a reissue claim (Stanford, R. 471). It purchased the patent for the purpose of reissuing it with claims which would protect its machines (Op., R. 1672; Stip. Par. 27, R. 32; Stanford, R. 471-72). The Government in no way challenges the acquisition of this patent and concedes the propriety thereof (Op., R. 1654-55; R. 166), stating that the acquisition of such patent "did not contribute at all to the offenses which we allege here" (R. 209).

In connection with the acquisition of the United States Harris patent, Singer acquired corresponding Harris patents or patent applications in Great Britain, Germany, Canada, France, Japan, Italy, Sweden and Belgium. Singer thereafter endeavored to determine whether the various foreign Harris patents and applications could be amended to insert claims therein similar to those inserted in the United States reissue application (Stip. Par. 30, R. 33-34; Stanford, R. 475-76). Singer ascertained that no amendment to the Harris Italian patent was permissible, that whatever is new and revealed by an Italian patent is considered, under the law, as fully protected independently of any claim that might be made with respect thereto (Dx. 129, R. 1530; Stanford, R. 476-77, 480) and that, short of litigation, it could not determine

whether the Harris Italian patent, as originally filed by Harris, would be so construed as to give Singer priority in Italy as well as in the United States (Dx. 129, R. 1530; Op., R. 1672-73).

II.

SINGER NEGOTIATES FOR AND ENTERS INTO THE SINGER-VIGORELLI CROSS-LICENSE AGREEMENT OF NOVEMBER 17, 1955

A. Singer concludes that litigation with Vigorelli will result unless a cross-license agreement is made.

Acquisition of the Harris patent changed considerably the relative positions of Singer and Vigorelli. Singer now had claims filed covering a plurality of cams with a single follower which had a priority date six months prior to the first Vigorelli patent covering the same concept. Singer therefore now was ahead of Vigorelli in the United States on both the stack of cams with the single cam follower and on the ability to take information from two cams at once. Vigorelli, however, could dominate the Singer 401 and 319 machines in numerous foreign countries (Stip. Par. 33, R. 34-35).

By August 16, 1955 Singer concluded that it was probable that it and Vigorelli would become involved in litigation unless a cross-license agreement could be made (Stip. Par. 32, R. 34; Dx. 12, R. 1385-87). Singer saw that to protect its machines against Vigorelli domination Singer would have to oppose Vigorelli in each country in which Vigorelli might choose to file (Op., R. 1673; Dx. 12, R. 1385-87; Gx. 4, R. 1022-23) and Vigorelli reported that he had patents or patent applications pending in seventeen countries (Gx. 19, R. 1051-52).

B. Singer seeks conference for purpose of arranging cross-license agreement with Vigorelli.

Singer conducted correspondence with its representative in Italy concerning the making of arrangements for a conference with Vigorelli (Stip. Par. 32, R. 34; Stanford, R. 477-82; Dx. 12-13, R. 1385-88; Gx. 4, R. 1022-25).

The Government quotes from a Lightner letter to Singer's representative a statement to the effect that while Singer could use its patents and patent applications to "make trouble for Vigorelli" it would be preferable and "would greatly strengthen and broaden the patent situation if our position and theirs could be pooled by some mutual agreement" (Govt. Br. 10). Here, by quotation out of context, the Government would establish a purpose and intent by Lightner to pool patents, a purpose and intent directly contrary to that found by the trial court. Not only the letter quoted but an earlier letter from Lightner (Dx. 12, R. 1386) showed that the kind of agreement Lightner was seeking was a pure cross-license agreement. Stanford so understood (R. 482) and the trial court so found, stating: "We find that in approaching and in bargaining with Vigorelli, Singer *was at all times* dealing at arm's length, solely in its own interest *for the purpose and with the intent of reaching a cross-licensing agreement*" (Op., R. 1677, emphasis supplied).

Singer, in the foregoing correspondence, showed that it was preparing to do battle with Vigorelli if called upon to do so and cited to its representative, not to Vigorelli, the weapons it had for such a battle. It, in fact, had a strong arsenal consisting, in part, of its Harris foreign patents and patent applications and, in part, of the fact that Vigorelli's machines infringed at least two other Singer foreign patents, one in France and one in Great

Britain (Stanford, R. 479-82; Dx. 12, R. 1386, 1st full paragraph; Gx. 4, R. 1023, 2nd full paragraph). Singer, however, wanted to avoid conflict, possibly throughout the world, and sought simply a cross-license agreement under which each would be free to sell its machines (Op., R. 1677, 2nd full paragraph; Stanford, R. 478, 482; Dx. 12, R. 1386, 1st full paragraph).

C. Singer learns of Gegauf patent and it becomes imperative that Singer come to an agreement with Vigorelli.

On October 10, 1955, Singer, through Vigorelli, for the first time heard of a Gegauf patent covering a multiple cam mechanism which, according to Vigorelli, had been deposited by Gegauf in a small number of countries and heard that Vigorelli was negotiating with respect to it (Op., R. 1674; Stip. Par. 35, R. 35). Near the end of October 1955 Singer obtained a copy of Gegauf Italian Patent No. 501,172. This patent disclosed (1) a stack of cams with a single cam follower; and (2) a stack of cams with each cam having its own individual follower. This Gegauf Italian patent enjoyed an effective priority date in Italy of May 31, 1952 based on a Swiss application priority date of May 31, 1952 (Op., R. 1677-78; Stip. Par. 36, R. 36). This date was nine days earlier than the priority date of the Harris patent.

The fears aroused in Singer for the future of its 401 and 319 machines by the discovery of the original Vigorelli machine and then the Vigorelli patent were now further sharpened by the discovery of this even earlier Gegauf patent, which, according to Vigorelli, had also been deposited in the United States (Op., R. 1674). It was imperative that Singer come to some immediate agreement with Vigorelli, for the alternative of pressing the Harris reissue patent had lost its value, since Singer

feared that, if it did push this application, it would be revealing to Vigorelli and Gegauf the weakness of its position, vis-a-vis Gegauf (Op., R. 1674-75; Stanford, R. 489). With respect thereto the trial court stated: "• • • In truth, Singer's back was against the wall in this matter and it was only thru swift and clever tactics that it was able to wrest some sort of victory out of what promised to be total defeat or at best a Pyrrhic victory" (Op., R. 1675).

D. Singer and Vigorelli enter into a cross-license agreement.

A conference with Vigorelli was arranged and on November 17, 1955 Singer and Vigorelli entered into a written cross-license agreement (Gx. 11 (S-2), R. 1032-35; Stip. Pars. 32, 34, R. 34-35). Under this agreement Singer granted a non-exclusive, royalty-free license to Vigorelli to manufacture and sell sewing machines embodying subject matter disclosed in the two Italian patents owned by Vigorelli, being Nos. 497,557 and 507,862, which patents disclosed, respectively, the first Vigorelli multiple cam zigzag machine and the modified form of such machine, and Vigorelli in turn granted a non-exclusive, royalty-free license to Singer to manufacture and sell sewing machines embodying subject matter disclosed in the United States Harris Patent No. 2,693,778 and the United States Johnson Application No. 471,766 and the United States Perla Application No. 473,855, which applications disclosed, respectively, the Singer Class 401 and 319 machines (Op., R. 1676; Gx. 11, R. 1032-33).

The agreement contained further provisions by which each of the parties agreed not to attack the other's patents in opposition, nullity or invalidation proceedings, which

were intended to and did apply to countries in which such proceedings were available, and by which it was agreed that in other countries, such as the United States and Canada, the parties would work together to settle interference or conflict proceedings in accordance with the laws and regulations of the Patent Office concerned (Op., R. 1676; Gx. 11, R. 1034; Stanford, R. 486-88).

With respect to the Singer-Vigorelli agreement the trial court said: "• • • It can hardly be seriously contended that the agreement was a preliminary step to effectuate a conspiratorial plan or an attempt to monopolize" (Op., R. 1675).

With respect to Singer's purpose the trial court found: "• • • Singer's purpose in entering into the cross-licensing agreement with Vigorelli was to secure to Singer the ability to sell its '401' and '319' machines in the various foreign countries where sale might otherwise have been foreclosed by enforcement of the Vigorelli patents, or at least to be free from the threat of litigation with respect to these patents" (Op., R. 1677).

III.

SINGER NEGOTIATES FOR AND ENTERS INTO THE SINGER-GEGAUF CROSS-LICENSE AGREEMENT OF APRIL 14, 1956

A. Singer, by January 1956, concludes that it is in serious difficulty with its 401 machine in the United States.

After Singer in October 1955 obtained a copy of the Gegauf Italian Patent No. 501,172, which enjoyed an effective priority date in Italy of May 31, 1952 based on a Swiss application priority date of May 31, 1952, it appeared to Singer that patents in many of the principal

countries of the world might be allowable to Gegauf which would be infringed by the Singer Class 319 and 401 machines (Stip. Par. 36, R. 36).

Continuing the endeavor which it previously had made to find material with which to limit or destroy claims of patents or patent applications claiming a multiple cam zigzag stitch mechanism which might interfere with Singer's machines, Singer, upon hearing of the Gegauf patent, immediately wrote its representative in Japan requesting that he obtain, if possible, any material antedating the filing of Gegauf's Swiss patent on a machine with a plurality of rotary cams and means for selectively connecting any one of the cams with the needle bar (Stanford, R. 485; Dx. 19, R. 1392-93).

In December 1955, Singer heard that Gegauf and Vigorelli had entered into a cross-license agreement relating to their respective multiple cam patents similar to the Singer-Vigorelli agreement (Op., R. 1678; Stip. Par. 38, R. 37).

In January 1956, Singer, by an examination of the United States Patent Office assignment records, learned that Gegauf had pending in the United States an application bearing serial number 358,377, which had been executed in Switzerland on May 20, 1953. Singer assumed that the United States application was based on the Swiss application and that it enjoyed a priority date of May 31, 1952, nine days earlier than the priority date of the Harris patent (Op., R. 1678; Stip. Par. 36, R. 36; Stanford, R. 490).

In January 1956, Singer was unofficially advised by the United States Patent Office that the claims of its United States Harris reissue application were allowable over the known issued patents. Singer knew that it would follow

that if such claims were contained in the Gegauf United States application they would be allowable in such application (Stip. Par. 37, R. 36-37; Op., R. 1678).

Upon learning from its representative in Japan that he had been unable to discover any material which would antedate the filing of Gegauf's Swiss patent (Dx. 21-26, R. 1395-1406), Singer concluded that it was in serious difficulty with its 401 machine in the United States (Stanford, R. 485-86).

B. Singer concludes that it would be to its advantage to negotiate with Gegauf for a cross-license agreement while Singer knows and Gegauf does not know that Gegauf has the earlier priority date.

In view of the foregoing, Singer was anxious to negotiate an agreement with Gegauf "similar to the one it had with Vigorelli" (Op., R. 1678; Stip. Pars. 37-38, R. 37). Singer, however, feared that an interference might be declared between the Harris reissue and the Gegauf application which would disclose to Gegauf for the first time its nine day priority. With knowledge that Gegauf had such priority, which knowledge Gegauf could not possess,[4] Singer felt that it would be in a better bargaining position, and accordingly wished to conclude such an agreement, prior to rather than after such disclosure (Op., R. 1678; Stip. Par. 37, R. 37; Stanford, R. 492-93).

[4] If Harris, a resident and citizen of Canada, had *disclosed* his invention in the United States prior to his filing date, his priority date could have been earlier than his filing date. Singer, however, knew that Harris could not so push back his priority date (Dx. 31, R. 1414, 1st full paragraph; Govt. Br. 50), a matter upon which Gegauf could have no knowledge unless Singer disclosed its weakness; whereas, in an interference proceeding disclosure of the relative positions would be forced.

C. Singer does not feel that it is in a good bargaining position because it can oppose allowance of a claim to Gegauf in an interference proceeding.

Singer did not, as the Government asserts (Govt. Br. 12-13), consider itself to be in a "good bargaining position" because, in an interference proceeding, it could oppose the final allowance to Gegauf of broad United States claims covering multiple cam machines. In support of its assertion the Government cites R. 1043 where Stanford asserted that Singer's chance of negotiating a cross-license agreement "would be greatly enhanced" and that Singer "would be in the better bargaining position" *prior* to an interference. The Government thus reverses the statement actually made by Stanford. Nor does the quotation set forth in footnote 13 (Govt. Br. 13) support the Government's assertion. All that Stanford was there saying was that with the Harris reissue application Singer could get into interference with Gegauf and could there oppose allowance of broad claims. Stanford in no way indicated that "an opportunity to oppose" would offer the slightest prospect of success. The record is clear that Singer (1) had searched the world in an endeavor to get material with which it could limit or destroy the Vigorelli and Gegauf claims (pp. 10, 19, 20, *supra*), (2) upon hearing from its representative in Japan that he had been unable to discover any material which would antedate Gegauf's filing date, concluded that it was in serious difficulty with its 401 machine in the United States (Stanford, R. 485-86), (3) had been officially advised by the Patent Office, and was fully confident, that Singer had an allowable claim (C R. 1678-81; Stip. Par. 37, R. 36; Stanford, R. 588; Op., R. 1678, 1681), and (4) was similarly confident that such claim could be awarded to Gegauf because of Gegauf's earlier priority date (Gx.

16, R. 1044, 1st full paragraph). The Government has even stipulated that it appeared to Singer that patents in many of the principal countries of the world might be allowable to Gegauf (Stip. Par. 36, R. 36), and the trial court found that Singer when entering into the license agreement "felt sure" that Gegauf would be awarded the claim (Op., R. 1681). An "opportunity to oppose" in a known losing cause, whatever its value otherwise might be, does not make one feel that he is "in a good bargaining position".

Here again the Government sets forth a fact contrary to a finding of the trial court. The Government asserts as a fact that Singer thought that it was in good bargaining position because it could oppose final allowance of broad claims in the United States. The trial court specifically found that Singer "felt sure" that Gegauf would be awarded the claim (Op., R. 1681).

D. Singer prepares to negotiate with Gegauf, February-March 1956.

In February 1956, Singer began preparations for a possible conference with Gegauf. It asked its representative in Italy to use an excuse for an informal approach to Vigorelli in order to obtain from him information as to how Vigorelli had induced Gegauf to drop its demand for $160,000, information obviously important to Singer in preparing for negotiations with Gegauf (Op., R. 1678; Stip. Par. 38, R. 37; Stanford, R. 493-94).

As a result of Singer's inquiries, its Italian representative reported that Vigorelli reported that Gegauf had consented to an agreement without the payment of any monetary consideration for a variety of reasons, which could be summarized as: (1) Gegauf's Italian patent was poorly

drawn; (2) Gegauf had applied for patent protection in only four countries, whereas Vigorelli had patents or applications in seventeen countries; and (3) Vigorelli was aware of certain patents which Gegauf considered dangerous to Gegauf's various applications (Op., R. 1679; Stip. Par. 39, R. 38). In connection with item (3), there is no evidence that there was in fact any patent which in any way interfered with or endangered Gegauf's invention of a stack of cams with a single cam follower (*infra*, p. 83).

Vigorelli was not told and did not know the purpose for which the above mentioned information was wanted. Vigorelli assumed that Singer sought such information for the purpose of combating Gegauf in the United States. Singer purposely kept Vigorelli from knowing why it wanted the information or that there was to be a conference between Gegauf and Singer (Op., R. 1678-79; Gx. 19, R. 1053), and later Singer issued express instructions to its representatives *not* to advise Vigorelli of Singer's coming conference with Gegauf (Dx. 29, R. 1410; Dx. 27; R. 1407, last paragraph).

E. Singer negotiates with Gegauf, April 12, 1956.

Shortly after receiving the above mentioned information from its Italian representative, Singer through its office in Switzerland made arrangements for a conference with Gegauf and representatives of Singer and Gegauf met on April 12, 1956 in Steckborn, Switzerland (Stip. Par. 39, R. 38).

(1) *Singer has no acquaintanceship with Gegauf, but is in a position where it is essential that Singer obtain a license from Gegauf.*

Singer had no prior acquaintanceship with Gegauf and had no knowledge as to the best manner of approaching Gegauf or as to the person in the Gegauf organization with whom any appointment should be made (Stanford, R. 497; Dx. 27, R. 1407; Dx. 28, R. 1409; Gx. 17, R. 1046-47; Gx. 18, R. 1048-49).

In entering into negotiations with Gegauf, Singer knew facts which made it essential that Singer obtain a license from Gegauf, namely (1) Gegauf had a patent issued in Switzerland with a priority date nine days earlier than the Harris patent, the principal claim of which read directly on the basic feature of the Singer 401 multiple cam mechanism; (2) Gegauf had an application pending in Germany which might mature into a patent which would read upon the 319 and 401 machines and Gegauf had an Italian patent, although it might be subject to question due to the manner in which it was drawn; (3) Gegauf had filed a United States application the claims of which Singer presumed would read on the Singer 401 and 319 machines (Op., R. 1679-80; Stip. Par. 40, R. 38-39); and (4) Singer's Swiss patent counsel had examined Gegauf's Swiss patent and advised Singer that Gegauf's patent was valid and that it was highly desirable for Singer to enter into an agreement with Gegauf (Stanford, R. 500-01; Dx. 31, R. 1411-12).

(2) *Attitude and feelings of the respective parties in bargaining.*

Singer's objective was to keep Gegauf in the dark as long as possible and to disclose only what was absolutely necessary to the effectuation of Singer's plans (Op., R.

1679; Stip. Par. 37, R. 37, last sentence; Dx. 27, R. 1407, last paragraph; Dx. 28, R. 1408; Dx. 31, R. 1417, 2nd full paragraph; Gx. 19, R. 1043, 1st full paragraph; Stanford, R. 489, 492-93). Singer approached Gegauf in substantially the same manner it had approached Vigorelli, that is, with intimations of litigation (Op., R. 1679; Gx. 24, R. 1063-64; Dx. 28, R. 1408-09). In this instance, however, Singer mentioned only its United States and foreign Harris patents and patent applications, not wanting Gegauf to know anything about its United States Johnson and Perla applications (Dx. 31, R. 1417; Gx. 26, R. 1066; Dx. 31, R. 1417). Gegauf had a feeling of assurance and showed that he felt that his position was superior to Singer's. He appeared to be suspicious of Singer's intentions and believed that Singer wanted to make an identical copy of his machine (Op., R. 1680; Stanford, R. 500; Dx. 30, R. 1411; Dx. 31, R. 1413, 1415; Gx. 24, R. 1063).

(3) *Singer urges that litigation be avoided so that patents may issue. The obtaining of broad claims or patents was not discussed or mentioned.*

In the course of a general discussion relating to numerous problems in the sewing machine business, Gegauf—not Singer but Gegauf—expressed fear that the Japanese machines then coming into the United States market would be sold at a lower price than the Gegauf machines because of the Japanese low priced labor (Stanford, R. 498-99; Gx. 24, R. 1061-62). Singer, believing that it had found a "lever" which it could use in the negotiations with Gegauf, pointed out that in the absence of an agreement Gegauf and Singer might litigate for a protracted period and argued that Singer and Gegauf should not be fighting each other as that would delay the

issue of their respective patents and said that they should license each other and get their respective patents "so they could be enforced by whoever would own the particular patent" (Stanford, R. 499).

In a memorandum relating to this conference, Waterman, a Singer representative, referred to Gegauf's fear of the Japanese and said that the Singer representatives did not do anything to cause Gegauf's fears to be other than along the line he was thinking "because one of the strong points" of their argument for the agreement between the two companies was "in order to fight against this Japanese competition in their building a machine *that in any way reads on the patents of ourselves and of Bernina [Gegauf] which are in conflict*" (Gx. 24, R. 1062, emphasis supplied). Such statement referred to Singer's argument that the companies, instead of fighting each other, should license each other and obtain their respective patents so that each could enforce his own patent (Stanford, R. 499; Op., R. 1683, lines 4-8, 22-26; Dx. 31, R. 1416, 2nd sentence of 1st full paragraph; Op., R. 1684; Stanford, R. 505-06; Stip. Par. 64, R. 45; Gx. 27 (S-7), R. 1069, 2nd and 3rd sentences of 1st full paragraph and 5th sentence of 2nd paragraph). But Singer knew, although not so saying to Gegauf, that Gegauf would get the claim and Singer would not. This is a type of argument used regularly in support of endeavors by one in an inferior position to obtain a cross-license agreement from one in a superior position. It catered to Gegauf's fear by picturing Gegauf as being able to enforce its patent earlier if litigation were avoided or, in other words, *if Singer got its license.*

Not a word was set forth in Waterman's memorandum as to obtaining broad claims or claims as broad as possible and there is no evidence that the subject of broad claims

was ever mentioned. The Government, in recognition of the findings of the trial court, concedes that it does not contend that there was any agreement "express or implied" in addition to the written agreements (Govt. Br. 27). How then can it contend that there was a prior oral agreement or understanding that Gegauf and Singer would seek broad claims? The Government nevertheless grasps Singer's argument that the parties would be better off if they refrained from fighting each other and obtained their respective *patents* and attempts to convert that argument into an agreement or understanding that they would obtain "broad" patent claims (Govt. Br. 62-63). There is not a scintilla of evidence to support the Government's contention, or that broad claims were even mentioned, and its own conclusion that such *must* have been the discussion between the parties is a complete non sequitur. Singer's argument against fighting each other was sound, whether a broad or a narrow patent would issue, and the Government offers nothing that makes it applicable only to a concept of obtaining a "broad" patent. The Government is destitute of any proof whatever that the parties discussed or in any way suggested the obtaining of a "broad" patent and when analysis is made it will be found that the Government must resort solely to the written provisions contained in the second sentence of Clause 1 of the cross-license agreement. This we deal with in Point I, *infra*, pp. 72-86.

F. Singer and Gegauf enter into a cross-license agreement.

On April 14, 1956 Singer and Gegauf entered into a non-exclusive, royalty-free cross-license agreement (Gx. 26 (S-3), R. 1066-68). The agreement listed the Singer

owned Harris Patent No. 2,693,778 and the Harris reissue Patent Application No. 516,059 *and nine specified corresponding foreign patents and patent applications* (British, Belgian, Canadian, French and Italian patents and Canadian, German, Japanese and Swedish patent applications). *It also listed the Gegauf Swiss Patent No. 310,788, and the Gegauf Italian and German patents Nos. 501,172 and 1,707,338 respectively; and the United States and German applications Nos. 358,377 and 11,654 respectively* (Op., R. 1681; Gx. 26 (S-3), R. 1066).

Under the agreement, Singer agreed not to sue Gegauf on the basis of any of its above mentioned patents or patent applications and in addition agreed not to sue Gegauf for the then existing construction of the Gegauf multiple cam machine. Gegauf agreed not to sue Singer on the basis of any of its above mentioned patents or patent applications (Op., R. 1682; Gx. 26 (S-3), R. 1067). The agreement also provided that the parties would not bring opposition, nullity or invalidation proceedings in countries where such proceedings were available, and that they would settle interference proceedings, where such proceedings were available, in accordance with the laws and regulations of the Patent Office concerned (Point I, *infra*, pp. 66-86).

As noted above, Singer's agreement was limited to the Harris patent. No mention, either in the agreement or in the negotiations, was made of Singer's Perla or Johnson applications. Singer did not want Gegauf to know of such applications (Dx. 31, R. 1417; Op., R. 1683).

G. The license was vital to Singer's welfare, obtaining it was entirely proper, and the agreement as signed constituted the entire agreement of the parties.

The license that Singer obtained was vital to its welfare and the license provisions were the essence of the agreement and were considered so by the parties (Op., R. 1682; Dx. 31, R. 1414; Gx. 58 (S-10), R. 1108, 2nd paragraph). Gegauf's invention squarely covered Singer's 401 machine and a United States patent, conceded by the Government to be valid, was to issue on Gegauf's application, a patent which would have foreclosed the entire United States market to Singer's 401 machine (Op., R. 1660, 1712; Stip. Par. 93, R. 58). The Government concedes that the obtaining of the cross-license by Singer was entirely proper, saying that Singer "had every right" to get the cross-license (R. 207) and that "the Government has made no contention that the cross-licensing was unlawful" (R. 1650).

The Singer-Gegauf cross-license agreement constituted the entire understanding of the parties. Other than as set forth in the agreement itself there was no agreement or understanding between Singer and Gegauf as to how either would prosecute, license or otherwise restrict its ownership of any patent (Op., R. 1683; Stanford, R. 458-59, 460-61, 504-05).

H. A possible purchase of Gegauf's patent application was never mentioned by Singer or Gegauf.

At no time, either prior to or during the negotiations with Gegauf, was any mention made of a purchase or a possibility of a purchase by Singer or a transfer to Singer of the Gegauf United States application (Op., R. 1683; Stanford, R. 506-07; Stip. Pars. 63, 64, R. 44-45; Dx. 31, R. 1418; Gx. 27 (S-7), R. 1070).

I. Before the trial court the Government conceded that this agreement was executed prior to the commencement of the alleged conspiracy.

The Government now contends that the Singer-Gegauf cross-license agreement of April 14, 1956 was part of a conspiracy consisting of a "course of concerted conduct" intended to further a joint purpose of eliminating common competitors (Govt. Br. 23). Its position before the trial court, as late as after the conclusion of the trial, was that such agreement was *not* part of the conspiracy it alleged. In its Memorandum Relative to Defendant's Proposed Findings, filed September 20, 1961, the Government advised the trial court:

> "The Government has made no contention that the cross-licensing was unlawful. It was *after* the defendant had acquired royalty-free patent rights that *it entered into the conspiracy alleged* and attempted to monopolize by acquiring full title to the patents or patent applications *under which it had already* been licensed." (R. 1650, emphasis supplied; see also Plaintiff's Post-Trial Brief (unprinted), Tr. 6377)

IV.

SINGER NEGOTIATES FOR AND ENTERS INTO GEGAUF-SINGER ASSIGNMENT AGREEMENT OF DECEMBER 5, 1957

A. Singer rejects Vigorelli proposal for joint action, April 20, 1956.

Approximately a week after the Gegauf cross-license agreement was executed, a meeting, asked for by Vigorelli, was held in Milan, Italy, between Singer and Vigorelli. At that meeting Vigorelli expressed a feeling that Singer, Gegauf and Vigorelli, having arrived at their respective

agreements, should thereafter act in concert against others. Singer promptly told Vigorelli that Vigorelli's suggestion would be impossible, that Singer could not make any agreement to take any action whatsoever with respect to any Singer owned patent. Singer stated that any action that was taken would have to be taken by the respective parties.[3] Upon Vigorelli's learning that there would be no joint action on prosecuting patents against others, the subject was dropped (Op., R. 1684; Stanford, R. 505-06; Stip. Par. 64, R. 45; Gx. 27 (S-7), R. 1068-71).

B. Singer lays the foundation for an approach by a third party to Gegauf's attorney with the idea that Singer could enforce the Gegauf patent better than Gegauf could and with the suggestion that Gegauf sell the Gegauf application to Singer.

As the aforesaid meeting was about over, Majnoni, who had acted as Vigorelli's patent attorney, went over to Stanford and stated that he would like to speak to him in English, apologizing that he spoke very little English. Majnoni asked about the situation in the United States between the Gegauf and the Harris reissue applications (Stanford, R. 507). In the immediately preceding conference with Gegauf, Stanford and Waterman had considered bringing up the subject of the purchase of Gegauf's application by Singer but had decided not to say anything to Gegauf "at this time" (Gx. 27 (S-7), R. 1070). Stanford had said that "there is a time and

[3] This reflects a somewhat similar attitude to that displayed by Singer when Messerschmitt proposed a division of territories among sublicensees and Singer pushed it aside "very quickly", asserting that such action was "under no circumstance" acceptable because it would constitute an infringement of the United States antitrust law and when it declined to have such an agreement "though not expressed", insisting that the written agreement must be complete and entirely truthful in all respects (Op., R. 1703-04).

place for everything, and we did not think that this was the time" (Dx. 31, R. 1418). Taking advantage of Majnoni's question, Stanford replied that such applications probably would be in interference shortly, that he was very much afraid that Gegauf would win the interference, and that he was sorry (Op., R. 1685; Stanford, R. 507) and Stanford advised Majnoni that, if Singer owned the Gegauf patent, Singer would be able to enforce it "better perhaps than Gegauf could" (Govt. Br. 15; Stanford, R. 507-08; Gx. 27 (S-7), R. 1070; Stip. Par. 64, R. 45). Stanford added that Singer had not broached to Gegauf the subject of the purchase by Singer of Gegauf's United States application because Singer thought that if it ever did, the price would go sky high and there would be no chance of making an agreement (Op., R. 1685; Stanford, R. 507-08; Gx. 27 (S-7), R. 1070; Stip. Par. 64, R. 45).[6] Majnoni volunteered to approach Gegauf's attorney, whom he knew, with the idea that Singer could enforce the Gegauf patent better than Gegauf could and with a suggestion that Gegauf sell such application to Singer. Stanford said that Singer would have no objection but that Singer did not wish itself to do this and would not want the suggestion to be made to Gegauf at this time as coming from Singer (Stanford, R. 507-08; Gx. 27 (S-7), R. 1070; Stip. Par. 64,

[6] Thus Singer started directing its attention to the acquisition of Gegauf's patent immediately after it entered into the cross-license agreement with Gegauf and not, as the Government contends, after a period of two months during which Singer *came to believe* that "there was reason for Gegauf and itself both *to be dissatisfied* with the *protection they were receiving* against their Japanese competitors" (Govt. Br. 34, emphasis supplied). How anyone could have expected to obtain "protection" against Japanese competitors under a cross-license agreement granting licenses under patent applications on which no patent had been issued, is not explained by the Government.

R. 45). Majnoni stated that he thought it would be "advantageous" if Singer owned the patent that would issue on the Gegauf application. Stanford's understanding of what Majnoni meant was that it would be better for Vigorelli if Singer, which was a corporation in the United States, owned such Gegauf patent and that Vigorelli would rather have Singer own such patent than Gegauf because Singer "could enforce it better or was in a better position to enforce it" (Stanford, R. 507-09).

Stanford expected from Majnoni nothing more than that he make the suggestion to Gegauf that Singer could enforce the United States patent better than Gegauf could and that Gegauf sell its United States application to Singer. Singer did not, directly or indirectly, authorize Majnoni to do more or consent to his doing more (Op., R. 1685; Stanford, R. 507-09; Gx. 27 (S-7), R. 1070; Stip. Par. 64, R. 45). As stated by the trial court, "There is no evidence, however, that his [Majnoni's] authority extended to anything more than to effect a rapprochement between Singer and Gegauf" (Op., R. 1685).

The trial court's findings at R. 1685-86 do not support the Government's assertion that *"At Singer's request,* within *two months* of the conclusion of the first Singer-Gegauf agreement, *Vigorelli* undertook to convince Gegauf of the desirability of assigning its application to Singer *'for broader protection in the United States by Singer's invoking the Harris and Gegauf patents'"* (Govt. Br. 34-35). In the first place, the trial court did not find that Vigorelli did anything. It found that in September (not June as asserted by the Government), long after Majnoni had performed the only function that was authorized or consented to by Singer, *Majnoni reported* that *Majnoni had advised* Gegauf *that "Vigorelli might agree"* to a withdrawal of its application if Gegauf placed his applica-

tion at Singer's disposal "for broader protection in the United States by Singer's invoking the Harris and Gegauf patents" (R. 1685-86). This hearsay report becomes quite absurd, and any such suggestion on the part of Singer would have been absurd, when it is realized that there could be no possibility of any advantage arising from enforcing the Harris reissue patent in addition to enforcing the Gegauf patent. With the claim that was in interference between them allowed to Gegauf and removed from the Harris reissue application, there would be nothing left in the resultant Harris patent that could make it advantageous to enforce it in addition to the Gegauf patent. Not a single machine could be excluded by the Harris reissue patent that could not be excluded by the Gegauf patent alone (Dx. 137, R. 1540; Stip. Par. 29, R. 33; Stanford, R. 587-88) and the Government so conceded before the trial court (R. 150; see also p. 92 hereof). When Majnoni's reference to "broader protection" by invoking the "Harris and Gegauf patents" is analyzed it becomes quite apparent that such concept was his own and his only, and that that concept was wholly erroneous.

The trial court found that no agreement was made or understanding reached that Singer would use in any way, either alone or in combination with any other patent, any patent owned or acquired by Singer (Op., R. 1695; Stanford, R. 508-09). There is no evidence of any mention of Japanese competitors.

C. Singer inquires as to whether Gegauf would be interested in selling the Gegauf patent application to Singer. Singer prepares for conference, August-September 1956.

In the summer of 1956, Gegauf, Jr. and his sister went to a sewing machine convention in Kansas City, Missouri. On the way home they met with Waterman and Stanford at

the Singer offices in New York City (Op., R. 1686; Stip. Par. 67, R. 46). Gegauf, Jr. expressed concern over the number of Japanese machines that he had seen at the convention. Here again Stanford and Waterman found an opportunity to employ Gegauf's concern to Singer's advantage. Wanting the Gegauf patent, they stressed to Gegauf, Jr. the difficulties of enforcing a patent in the United States. They pointed out various problems, including the large number of importers, the size of the United States, the number of judicial circuits, the difficulty of finding out who was selling infringing machines and the difficulty of finding the importer of such machines, which arose because it was impractical to sue every retailer. They said that these all presented problems to the owner of a United States patent, that, being in the United States, Singer could enforce the patent better than Gegauf could, and they asked Gegauf, Jr. whether he thought his father would be interested in selling the patent to Singer (Op., R. 1686; Stanford, R. 513-14).

On September 3, 1956, Gegauf, writing to Waterman, referred to the visit of *"Mr. Gegauf junior"* to New York and stated that Singer's "suggestion" to Gegauf, Jr. as to the pending Gegauf United States application had been taken up with *"Mr. Gegauf senior"* and that Gegauf might be interested in such an agreement. The letter thereupon requested Singer to "put your suggestion in writing" (Gx. 33, R. 1079). (As set forth above, the only suggestion which had been made to Gegauf, Jr. was in the form of an inquiry as to whether Gegauf, Sr. would be interested in selling such application to Singer.) The letter further stated: "We agree that something should be done against Japanese competition in your country and maybe South America • • •" (Gx. 33, R. 1079).

Waterman, obviously wanting to see the minute details of what Gegauf had for sale, did not put in writing his previous "suggestion" that Gegauf might sell his patent application to Singer. Instead, by letter of September 7, 1956, he asserted that Singer felt that an arrangement could be equally advantageous to both and that Singer believed that time would be saved if Gegauf's New York attorney were to meet with Stanford "with authorization from you to disclose contents of patent application" (Gx. 35, R. 1080).

On September 12, 1956 Stanford wrote to Gegauf's New York patent attorney stating that Singer was interested "in acquiring all the rights" in Gegauf's application and that Stanford would like to have knowledge of the file contents before leaving for Europe (Gx. 36, R. 1081), and an examination of the application was arranged for and made (Stip. Par. 69, R. 46).

D. Gegauf refuses to sell for less than $250,000 and Singer terminates the negotiations, September 1956.

Arrangments were made for a conference with Gegauf to be held on September 23, 1956 in Landau, Germany (Op., R. 1686; Stip. Par. 69, R. 46). Before going to such conference Stanford prepared, in New York, forms of assignment of the Gegauf application to Singer, with a license back to Gegauf. These he took with him to the conference (Stanford, R. 514). They discussed an assignment of Gegauf's patent application to Singer and a license back to Gegauf. Gegauf, however, was unwilling to make an assignment for less than $250,000—many times more than Singer would consider paying. Singer ended the negotiations and nothing was reserved for discussion with Gegauf at a later time (Op., R. 1686; Stip. Par. 70, R. 46; Stanford, R. 514-15).

With reference to this conference the Government makes an incorrect statement. It asserts that following this conference "negotiations were suspended for a year, then resumed in September 1957" (Govt. Br. 35). The Government so states notwithstanding that in its Statement of Facts it sets forth that negotiations "ended" because Gegauf refused to sell for less than $250,000 (Govt. Br. 16) and that the trial court found (R. 1686) and the Stipulation of Facts states that Singer "ended" the negotiations (Stip. Par. 70, R. 46).

E. A year intervenes.

During the interval from September 23, 1956 to September 12, 1957, *a period of approximately one full year,* nothing whatever was done by Singer towards securing the Gegauf application (Op., R. 1686). There was no communication in any form, written or oral, between Singer and Gegauf with reference to any possible purchase by Singer of the Gegauf application (Op., R. 1686; Stanford, R. 517). Nor was there, during this period of one year, or at any time thereafter, any communication, written or oral, between Singer and Vigorelli or between Singer and Majnoni with reference to a possible purchase by Singer of the Gegauf United States application (Stanford, R. 513, 517; Op., R. 1694-95).

During this interval Singer, on March 15, 1957, abandoned the interference which had been set up between Singer's Harris reissue claim and the Gegauf claim (Stip. Par. 71, R. 47), *the Gegauf claim having been taken verbatim from Singer's Harris reissue claim* (Stip. Par. 28, R. 33; Dx. 136, R. 1539) and Singer realizing that it could not overcome the Gegauf priority date (Stanford, R. 517; Stip. Par. 69, R. 46; Govt. Br. 50).

F. One year after its previous attempt, Singer, concealing its purpose, seeks new conference for purpose of again trying to purchase Gegauf patent application, September 1957.

In September 1957, one year after the previous conference with Gegauf, Singer was notified by the Patent Office that its Harris reissue application (then containing claims wholly subservient to Gegauf's claim) was about to issue as a patent. It presumed that Gegauf's patent would also soon issue (Op., R. 1686-87; Gx. 44, R. 1090). On September 9, 1957, Stanford proposed to Waterman that Gegauf be approached again, expressing the feeling that Singer had "nothing to lose and much to gain" by "again" seeking to obtain the rights in the Gegauf United States application (Stip. Par. 72, R. 47).

On September 12, 1957, Waterman wrote to Gegauf advising that Singer had been notified by the United States Patent Office that Singer's Harris reissue application was about to be issued as a patent and that Singer presumed, therefore, that in a short time a patent would be granted upon Gegauf's application. He stated that "a proper enforcement of these patents" might make it necessary to instigate patent suits against "each of the importers" of infringing machines, of whom "there perhaps will be many" and that he thought that Gegauf would agree that "neither of us alone can protect himself most effectively" (Gx. 44, R. 1090-91). This letter was written under the pretense that Singer sought a conference to discuss enforcement of the patents, "when issued", as Singer did not want Gegauf to know at this time that in fact its objective was to try again to purchase Gegauf's application (Stanford, R. 518; Gx. 43, 44, R. 1088-91). In the letter Singer referred to enforcement of the two patents

"against infringing manufacturers who primarily are manufacturers in other countries * * *" (Gx. 44, R. 1090) and not to enforcement against Japanese infringers or Japanese infringing machines. Waterman stated that he was planning to be in Europe within the next few weeks and that it might be in Singer's and Gegauf's "mutual interest" to resume conversations while he was abroad (Gx. 44, R. 1091).

Gegauf in his reply of September 17, 1957 advised that he was looking forward to Waterman's visit for a discussion regarding "the mutual enforcement of our U. S. application No. 358,377 and the Harris reissue against infringing products of the foreign manufacturers" (Op., R. 1687; Gx. 45, R. 1092).

Arrangements were made for a conference with Gegauf. Stanford, on September 23, 1957, prepared and he and Waterman took to this conference two forms of assignment, one form calling for a lump sum payment and the other calling for annual payments (Op., R. 1687; Dx. 36 (S-8), R. 1422-24; Dx. 37 (S-9) (unprinted), Tr. 5250-53; Stip. Par. 74, R. 47). Stanford advised Waterman that the first form of agreement had the advantage that it gave Singer "irrevocable title" to the application and, furthermore, that under this agreement "it would not be incumbent upon Singer to deal any further with Gegauf in connection with this general subject" (Op., R. 1687; Gx. 47, R. 1093; Stip. Par. 74, R. 47; Stanford, R. 521-23).

G. Singer believes agreement with Gegauf reached at price of $40,000, October 1957.

Waterman and Stanford went to Europe and met with the Gegauf people, including Gegauf, Sr. and Gegauf, Jr., in Zurich on October 16, 1957. There was discussed at that meeting an assignment which would give Singer "com-

plete ownership" of the patent and in return license Gegauf to build and sell its machines (Op., R. 1687; Gx. 49, R. 1095; Stip. Par. 76, R. 48). Singer endeavored to give the impression that "the subject was not overly important" to Singer. Waterman reported that the price agreed upon for the "outright purchase" of Gegauf's application, with all of its divisions, was reached only after considerable discussion and that it was $40,000 (Op., R. 1687; Stip. Par. 76, R. 48; Gx. 49, R. 1095; Stanford, R. 523-24). Singer expected that an agreement, "if not already reached", would be finally settled shortly. Gegauf's attorney and Singer's Swiss patent attorney, Kirker, who had not been present at the meeting, were to get together to finalize the terms of the agreement in accordance with the discussion (Op., R. 1687; Stip. Par. 76, R. 48; Gx. 49 R. 1095-96; Stanford, R. 523-24).

H. Gegauf makes new demands, October 1957.

Gegauf, however, was not as near to an agreement as Singer had believed. Shortly after the conference, Gegauf, through his attorney, raised three points with Kirker: Gegauf wanted $125,000, wanted the agreement to provide that Singer be required to obtain Gegauf's consent before it brought a legal action against a European company on a patent issuing on the application, and had prepared but had not filed a divisional application, covering a part of the subject matter of the original application, and did not want to transfer such divisional application (Op., R. 1687-88; Stip. Par. 77, R. 48-49; Gx. 50, R. 1096-97; Gx. 52, R. 1098-1100).

Kirker, by letter of the 25th, reported Gegauf's demands to Stanford and stated his belief that Gegauf, with respect to the second of the above mentioned points, had in mind

three companies, namely, Necchi, Pfaff and Vigorelli (Stip. Par. 77, R. 49; Gx. 52, R. 1099) and that the conversation with Gegauf's attorney had left him under the impression that an agreement might be obtained *on the basis of approximately half the sum mentioned*, that Gegauf considered Singer's proposal of $40,000 as a minimum subject to discussion and Gegauf's counter-proposal of $125,000 as a maximum also subject to discussion (Stip. Par. 77, R. 49).

Stanford by letter of October 30, 1957 replied to Kirker's letter, giving Kirker express instructions that (1) Singer had negotiated for and wanted the entire application; (2) Singer would agree to permit Necchi, Pfaff and Vigorelli to sell their machines in the United States; and (3) Singer would be willing to pay $62,500, and authorized Kirker to go as high as $75,000. He advised Kirker to contact Gegauf's attorney and make known to him Singer's position (Op.; R. 1689; Stip. Par. 78, R. 49-50).

1. Gegauf's position hardens, November 1957.

On November 15, 1957 Kirker, as requested by Stanford, had an interview with Gegauf, Gegauf, Jr. and their patent attorney. This interview revealed that the position of Gegauf had, as stated by Kirker, "considerably hardened", since Stanford's visit of a month before (Op., R. 1689; Gx. 56, R. 1104-06). Gegauf explained that while he "had no objection to making an assignment of [his] application by means of [illegible] Singer could stop as far as possible Japanese competitors in the United States market", he would do so only upon the conditions he set forth (Govt. Br. 17; Stip. Par. 79, R. 50). Gegauf indeed set forth plainly and forcibly that if he was going to give Singer the means by which Singer could stop

Japanese infringing machines it would be done on Gegauf's terms. He made it clear in that conference that he conceived his interests to be different from those of Singer, and that while he was giving to Singer "the possibility to stop" Japanese infringing machines in the United States, there was a serious drawback for Gegauf in that if sale of such infringing machines in the United States were terminated, endeavors would be made to sell them in Europe (Gx. 56, R. 1107; Op., R. 1690).

Gegauf's main interest was in Europe. According to Gegauf's statements to Stanford: the Gegauf factory in Switzerland produced 70,000 to 80,000 sewing machines per year, of which only about 4,500 were straight stitch machines, his major efforts being devoted to multiple cam machines; and Gegauf did not wish to increase production, as Gegauf was getting the maximum number of machines off his existing tools and did not wish to expand any further, Gegauf expressing his opinion that small sewing machine companies get into difficulties by over-expanding and permitting their inventories to become too great (Gx. 62, R. 1122). *Gegauf's total exports of multiple cam sewing machines to the United States in the year 1957 were only 1,600 machines* (Stip. Par. 121, R. 64).

The conditions that Gegauf set down for the assignment to Singer were: first, Singer would have to make a clear undertaking not to manufacture a machine which was a copy of the Gegauf machine; second, that Gegauf should have the right to grant a license to "one European company" out of a list of European companies; and, third, that Gegauf would receive the sum of $125,000 (Stip. Par. 79, R. 50; Op., R. 1689-90).

Gegauf asked Kirker what sum Singer was willing to offer and stated that he was not prepared to start bargain-

ing and that he would not agree to a sum nearer to Singer's $40,000 offer than to his figure of $125,000. This came as a surprise to Kirker as he believed that Gegauf would reduce his figure considerably. Kirker told Gegauf that he could go no further with the discussion since his instructions from Singer contained a maximum which was nearer to Singer's figure of $40,000 than to Gegauf's figure of $125,000 and stated that he would ask Singer for specific instructions concerning the sum to be offered (Op., R. 1690; Stip. Par. 79, R. 50-51; Gx. 56, R. 1106-07).

Kirker reported to Stanford on the foregoing interview with Gegauf and advised that it looked as if an agreement might be reached by offering $80,000 to $90,000 but that Singer might have to go up to $100,000 (Stip. Par. 79, R. 51).

J. Stanford prepares to go to Europe to obtain the means to bar all imports of machines infringing Gegauf Patent No. 1, November 1957.

Upon receiving from Kirker the advice concerning his interview with Gegauf, Singer decided that Stanford should go to Europe and attempt to conclude the agreement. Purposes, considerations and policies for Stanford's guidance were formulated and set forth in a memorandum by Milton C. Lightner, the then President of Singer (Stip. Par. 80, R. 51-54). Lightner's memorandum asserted that the main purpose of Stanford's trip was to put Singer in a position "to own and control" the Gegauf application in order "to bar import or U. S. production" of infringing mechanisms (Stip. Par. 80, R. 51).

Here was the clearest of statements that Singer's purpose was to stop all machines infringing Gegauf Patent No. 1 *whatever the source thereof—Japan, Europe or the United*

States. When the Government was urging that Singer unilaterally attempted to monopolize, it literally rang the welkin with this statement of Lightner's. For instance, in its Jurisdictional Statement, where it still was arguing the attempt to monopolize charge, the Government said: "The undisputed facts found by the district court (see the statement, *supra,* pp. 6-10, 12, 13) compel the conclusion that Singer specifically intended not only to exclude Japanese competitors from the United States market in multi-cam machines, but also to eliminate all other competitors and monopolize that market", and added: "Singer's own words were that 'it wanted to get the very best patents' to bar imports or United States production of mechanisms which would violate these patents" (J.S. 20).

K. Stanford goes to Europe to there arrange a conference with Gegauf and negotiates with Gegauf. Gegauf assignment made for $90,000, December 4-5, 1957.

Stanford met Kirker in Geneva, preparatory to arranging a conference with Gegauf (Gx. 62, R. 1115; Stip. Par. 81, R. 54), and called Willie, Gegauf's patent attorney, in Zurich, and requested a conference with Gegauf (Gx. 62, R. 1115). Willie reported Gegauf was ill (this turned out to be a pretext of illness) and would not be able to see them in Zurich but would see them in Steckborn, 50 miles from Zurich on December 4, 1957 (Op., R. 1691; Gx. 62, R. 1115-16). They attempted to induce Willie to travel with them from Zurich to Steckborn but, "probably anticipating such a request", he informed them that he could not go with them (Gx. 62, R. 1115-16).

At the conference of December 4, 1957:

(a) Although most anxious to conclude the assignment, Stanford took the offensive and referred to Gegauf's

previous statement to Kirker that if importation into the United States of infringing Japanese machines were stopped the effect would be that such machines might be sent into Europe because Gegauf did not have patent protection in Europe. Stanford asked several questions directed to the searching out of information as to whether Gegauf knew of any patents which might affect the validity of the patents that Gegauf had. He was informed by Gegauf that Gegauf "knew of no additional reference publication or prior patents which would have any effect" upon Gegauf's patents (Op., R. 1691; Gx. 62, R. 1116-17).

(b). Gegauf, Jr., expressed the feeling to Stanford that there might be a disadvantage to Gegauf in conveying its United States patent to Singer, because it would divert Japanese infringing machines to Europe. Stanford replied that if they flooded the United States market with *infringing machines* they would become strong by high production and would enter the European market in an even stronger position. Stanford further replied that it seemed that a greater risk would be involved for Gegauf if Gegauf did not permit Singer to try to reduce the importation into the United States of machines *infringing* such patent (Op., R. 1691; Gx. 62, R. 1118-19).

(c) Gegauf asked that the agreement provide that Singer would assist Gegauf in actions brought under his patents against his competitors in Europe. Singer rejected this proposal (Op., R. 1691; Gx. 62, R. 1119).

(d) Stanford pointed out to Gegauf that the Brother Pacesetter machine was a free-arm zigzag machine, that Singer did not have a comparable free-arm machine to sell and that consequently the Brother Japanese machine was in direct competition with Bernina and not with

Singer. Gegauf, *who had sold a total of only 1,600 machines in the United States during 1957*, was not impressed with any prospect of increased sales by him of his machines. He offered the Gegauf application to Singer "free of charge" if Singer would agree for the next five years to sell 10,000 of Gegauf's free-arm machines a year. Stanford attempted to stall off this suggestion by expressing doubt that Singer would be willing to sell someone else's machines in its shops and asserted that Singer certainly would not consider it if it were not exclusive. The response came with alacrity that Gegauf was thinking of changing agents in the United States. Stanford thereupon brought the conversation back to his objective (Op., R. 1692; Gx. 62, R. 1120).

(e) When the matter of price was discussed, Gegauf insisted that Singer make an offer. After considerable thought, Stanford offered 300,000 Swiss francs, the equivalent of $75,000, "but has a larger sound", for an assignment of the original and divisional applications. Gegauf replied that such offer was not close enough to his figure of $125,000. Singer, after considerable discussion, brought him down to $100,000 (Op., R. 1691-92; Gx. 62, R. 1119). Negotiations continued and finally Stanford made an offer of $90,000 which Gegauf accepted (Op., R. 1692; Gx. 62, R. 1121).

The negotiations lasted for two days and included a dinner attended by all participants. In the entire period there was not a single mention of any Singer owned United States patent or patent application, or of the enforcement or use of any such patent, alone or in conjunction with a Gegauf patent or any other patent (Gx. 62, R. 1114-23).

L. Provisions of the Gegauf-Singer assignment agreement.

The agreement assigning the Gegauf patent application and the divisional application was drafted by the Singer representatives and executed the next day. (Op., R. 1692; Gx. 62, R. 1121). Under such agreement, Singer (1) agreed to pay Gegauf the sum of $90,000, (2) granted Gegauf a non-exclusive and royalty-free license to sell in the United States sewing machines of the type disclosed in the assigned patent applications *and made in Gegauf's own factory in Switzerland*, (3) agreed that Singer would not without Gegauf's consent introduce legal proceedings on the basis of patents issued under said applications *against Pfaff in Germany with respect to sewing machines manufactured in Pfaff's factory in Kaiserslautern, Germany*, or *against Vigorelli in Italy with respect to sewing machines manufactured in Vigorelli's factory in Italy*,[7] and (4) agreed not to manufacture or sell in the United States or elsewhere a sewing machine the construction of which would be a slavish copy of Gegauf's sewing machine taken as a whole, which machine was shown on the schedule attached to the Gegauf-Singer cross-license agreement, or of the feeler and multiple cam mechanism contained in such Gegauf sewing machine. Gegauf agreed to assist Singer, at Singer's expense, in procuring "valid" patents based on the applications (Op., R. 1692-93; Gx. 58 (S-10), R. 1108-10).

[7] Both Gegauf and Singer had already licensed Vigorelli under their respective patents and, as stated by the trial court, this provision restricted Singer's freedom to enforce the Gegauf patents only with respect to Pfaff (Op., R. 1713). By agreement dated July 22, 1959 this agreement was amended by deleting therefrom the provision with respect to Pfaff (Op., R. 1710; Gx. 139, R. 1204-05).

M. The written agreement constituted the entire agreement and understanding of the parties.

Upon the execution of the assignment, Singer understood and believed that it became, and it did become, the complete owner of the applications, free to use such applications, and any patent issued thereon, as Singer might see fit, limited by no obligations to Gegauf other than as expressed in the written cross-license agreement with Gegauf and the written assignment agreement with Gegauf (Stanford, R. 529-31).

The trial court twice made findings to the effect that there was no agreement between Singer and Gegauf outside of the written agreement. It expressly found that there was no understanding or commitment with respect to the enforcement of any patent then owned or subsequently acquired, either alone or in conjunction with any other patent, by infringement action or otherwise, or that either would restrict licenses to others. The trial court stated (Op., R. 1693):

> "With the exception of these specific limitations on Singer's right to assert the Gegauf patent when issued, no agreement was made or understanding reached by the parties with respect to the licensing, enforcing or use of their patents. These writings were the entire agreement of the parties."

Again, at page 1714, the court found:

> "Aside from this [a limitation in the agreement on the right to assert the Gegauf patent] there was no other understanding or agreement with respect to licensing or enforcing by infringement action or otherwise, any patent, then owned or subsequently acquired, or with respect to the use in any way of any such patent, alone or in conjunction with any

other patent. The written agreement expressed the complete agreement and understanding of the parties and we conclude that it contained nothing illegal."

N. Singer's purpose in acquiring Gegauf Patent No. 1 was to become the complete owner thereof in order to protect its 401 machine in such manner as best served Singer's interest.

Singer, immediately after it had entered into the cross-license agreement with Gegauf in April 1956, started directing its attention to the possible acquisition of Gegauf's patent covering a stack of cams and a single cam follower. Singer felt that it could enforce the patent better than Gegauf could. It felt that it was at the mercy of a foreign patent owner and that its needs could be satisfied only by independent ownership of the patent. As stated by the trial court,

> "As a nonexclusive licensee of a United States patent owned by a foreign manufacturer who had neither committed himself nor authorized Singer to protect the patent from infringement and whose principal interest lay in Europe, Singer in the United States felt at the mercy of infringers. Singer thus realized the need for independent ownership of the patent." (Op., R. 1695)

In approaching and in bargaining with Gegauf with respect to the assignment of Gegauf's application, Singer at all times was dealing at arm's length, solely in its own interest and with the intent of becoming the unrestricted owner of the Gegauf patent. The trial court found that the assignment agreement resulted "from a fixed determination on each one's part to give and pay for nothing more than was absolutely necessary to secure

its respective ends and to carry on the protracted negotiations as distantly as possible" (Op., R. 1694). At another point the trial court referred to "further evidence of the arm's length dealing which had characterized all Singer's dealings with Gegauf" (Op., R. 1709).

Singer wished to acquire and acquired Gegauf Patent No. 1, which squarely covered its 401 machine (Op., R. 1660; Stip. Par. 93, R. 58), in order to control such patent and be in a position to protect the manufacture and sale of such machine by enforcing the patent against unlicensed infringers, whatever the country of origin, and always, and in every instance, in such manner, and only in such manner, as served Singer's interest. The trial court found: "Singer's sole interest was to protect its '401' machine against all infringing machines. [Citation] This extended not only to machines originating in Japan but everywhere, including Europe." (Op., R. 1698)

V.

SINGER ATTEMPTS TO ENFORCE GEGAUF PATENT NO. 1 FOR THE PROTECTION OF ITS 401 MACHINE

A. Singer commences a proceeding before the United States Tariff Commission to protect its 401 machine by obtaining an order excluding all unlicensed machines infringing Gegauf Patent No. 1.

On January 15, 1959 Singer filed a complaint before the United States Tariff Commission praying that the Commission recommend to the President that household automatic zigzag sewing machines covered by the claims of Gegauf Patent No. 1 be excluded from entry into the United States for the term of such patent (Op., R. 1707; Stip. Par. 82(4), R. 55; Ex. S-11, R. 1616). This led to the Tariff Commission investigation, No. 17, in which the

taking of testimony was completed, but which was stayed by the Tariff Commission when this suit was brought by the Government and is being held in abeyance awaiting the outcome of this suit (Op., R. 1707; Stip. Par. 82(4), R. 55; Dx. 54(unprinted), Tr. 5283).

Singer's complaint to the Tariff Commission was filed more than one year after the Gegauf assignment to Singer and more than eight months after the issuance of Gegauf Patent No. 1. At the commencement of the trial the Government said to the trial court, "We will also undertake to show that one facet or idea of the conspiracy was that Gegauf would assign his applications to Singer so that Singer then, having ownership of it, could use it before the United States Tariff Commission . . ." (R. 86). The Government, while now admitting that "there is no evidence that the parties discussed" the advantages of a Tariff Commission proceeding "prior to the transfer of the Gegauf patent", attempts *by implication* to create an impression just to the contrary (Govt. Br. 38). It asserts that "*although*" there is no evidence that the parties discussed the "advantages" of the Tariff Commission proceeding, "the Tariff Commission proceedings demonstrate the exceptional benefits to Singer and Gegauf" which resulted from transferring Gegauf's patent to Singer and refers to the fact that only an American manufacturer could bring such an action (Govt. Br. 38). It then promotes the implication of prior discussion by use of the words "at least" in its statement that "the joint benefits" must have become apparent "at least" while the proceeding was in progress (Govt. Br. 38). At no time prior to the Singer-Gegauf assignment agreement was any mention made by Singer to Gegauf or Vigorelli of the possibility of bring-

ing a proceeding before the Tariff Commission (Op., R. 1707; Stanford, R. 530). There not only was no discussion between the parties with respect to such possibility, but Stanford did not have any knowledge of or give any recognition to the fact that a Tariff Commission proceeding could be brought in connection with the assignment (Stanford, R. 530) and testimony of both Stanford and Brumbaugh, outside patent counsel to Singer, shows when the Tariff Commission proceeding was in fact first conceived (Stanford, R. 531, 575-77, 578; Brumbaugh, R. 579-80). With respect to the filing of the Tariff Commission proceeding and the absence of any discussions with respect thereto during any of Singer's negotiations with Gegauf or Vigorelli, the trial court found:

> "This filing with the Tariff Commission was after the acquisition of the Gegauf patent. It was followed and was the result of a discussion which Singer had with its patent counsel and with an attorney expert in tariff matters, concerning the inadequacy of infringement suits to protect its '401' machine. Before the filing, Singer did not consult with Gegauf or Vigorelli about taking this step. There is no evidence that Singer ever discussed such a step with either Gegauf or Vigorelli during any of its negotiations with them." (Op., R. 1707)

Singer first gave consideration to the possibility of bringing a proceeding before the Tariff Commission in May 1958, more than five months after execution of the Gegauf assignment (Stanford, R. 531, 575-76). The idea of bringing such an action originated during a discussion between Singer and its outside patent counsel in New York concerning the difficulties of enforcing Gegauf Patent No. 1 and their belief that infringement suits did not provide a

remedy adequate to protect the Singer 401 machine (Op., R. 1707; Stanford, R. 576-77, 578; Brumbaugh, R. 579-80). Singer thereupon decided to explore the possibility of bringing a proceeding before the Tariff Commission (Stanford, R. 576-77; Brumbaugh, R. 580).

Singer was faced with the situation that all manufacturers of machines infringing such patent were located outside the United States, that there was a large number of importers and distributors of such infringing machines, and that a court order prohibiting an importer or distributor from dealing in an infringing machine would not prevent a different importer or distributor from dealing in the same machine (Dx. 45, R. 1434; Ex. S-11, R. 1596, 1597, 1615). Singer instituted the Tariff Commission proceeding believing that these factors rendered the remedy of civil infringement suits inadequate to prevent infringements of Gegauf Patent No. 1 (Dx. 45, R. 1434; Ex. S-11, R. 1597, 1615-16).

Singer considered that the selling of sewing machines infringing Gegauf Patent No. 1 constituted unfair methods of competition and that such unfair methods of competition had the effect or tendency "to destroy or substantially injure an industry, efficiently and economically operated, in the United States" (19 U.S.C. §1337) and it so alleged in the Tariff Commission complaint (Ex. S-11, R. 1596, 1597, 1603, 1606-07, 1615).

The trial court found that the Tariff Commission proceeding was "brought by Singer in a bona fide attempt to obtain protection for its '401' machine," which Singer was manufacturing and selling in great volume, "by an order excluding *all* unlicensed machines which infringed" Gegauf Patent No. 1 (Op., R. 1710 (emphasis is the trial court's); Op., R. 1707; Stanford, R. 531-32) and that "Singer had every right to resort to the Commission" (Op., R. 1710-11).

B. Singer institutes infringement actions to enforce Gegauf Patent No. 1 and attempts to obtain prompt adjudication of the validity of such patent.

Once again the Government seeks to imply what it is not prepared to state. The Government asserts that "there is authority[20] that in such [Tariff Commission] proceedings the validity of the Gegauf patent (which Singer had earlier agreed not to question before the Patent Office) is not subject to challenge by the excluded parties" (Govt. Br. 38; footnote omitted). It thus implies that Gegauf Patent No. 1 contained claims broader than were legally permissible, although it concedes the validity of such patent (Stip. Par. 93, R. 58), and implies that Singer was unwilling to subject such claims to a challenge of invalidity. The Government's first implication, challenging by innuendo its own concession, is dealt with at pages 78-83, *infra*. Its implication that Singer sought to avoid a test of the validity of the patent which the Government does not question, is flatly contradicted by the evidence and the findings of the trial court. Promptly upon the issue of Gegauf Patent No. 1, Singer sued Brother International Corporation, one of the largest importers and distributors of infringing Japanese-made machines and a subsidiary and sole distributor for Nippon, one of the largest Japanese manufacturers in Japan (Dx. 45, R. 1434; Stip. Pars. 82(1), 98, R. 54, 60-61). Brother, though pleading invalidity of Gegauf Patent No. 1, was not in a hurry to have the issue decided and it is still undecided because Brother, not Singer, sought a stay of proceedings (Op., R. 1711; Gx. 146 (unprinted), Tr. 3767-69, 3771-75, 3778; Dx. 124, R. 1525).

Singer commenced an infringement action against Sewing Machine Exchange on September 10, 1958 in the United States District Court for the Western District of South Carolina *for the specific purpose of obtaining an early adjudication of the validity of the claims of Gegauf Patent No. 1* (Dx. 45, R. 1434). When Sewing Machine Exchange was unwilling to defend the suit against it, Singer endeavored to induce the attorneys for Sewing Machine Exchange to contact Standard Sewing Equipment Corp., the importer and distributor of the machines involved in the suit, with the request that Standard take over the defense of the suit (Dx. 43, R. 1430; Dx. 44, R. 1432). Standard did not take over the defense of the suit whereupon Stanford reported that "unfortunately" neither Sewing Machine Exchange nor Standard would defend the suit and that "Singer had to be content with a consent decree" (Dx. 44, R. 1432; Dx. 45, R. 1434; see also Op., R. 1711; Stip. Par. 82(2), R. 54). The consent decree in the Sewing Machine Exchange action was filed on November 26, 1958 (Gx. 148 (unprinted), R. 3786). One week later Singer filed an infringement suit against ACO Appliance Distributing Company in the United States District Court for the Eastern District of South Carolina, again seeking an early adjudication of the validity of Gegauf Patent No. 1 (Dx. 44, R. 1432; see also Op., R. 1711; Stip. Par. 82(3), R. 54-55). With respect to this action, Stanford reported, "We hope that either ACO or its supplier Fleetwood Industries, Inc. will defend the present infringement suit" (Dx. 44, R. 1432). The action against ACO, however, was also terminated by a consent judgment (Op., R. 1711; Gx. 152 (unprinted), R. 3798-3800).

The trial court expressly found that Singer's effort to obtain an adjudication of validity "belies any intent on

its part to acquire broad patent protection regardless of validity" (Op., R. 1711).

C. Singer's enforcement efforts have been directed to the prevention of the sale of machines infringing Gegauf Patent No. 1.

Without exception, each infringement action brought by Singer and the Tariff Commission proceeding were brought with respect to sewing machines that infringed Gegauf Patent No. 1. Except in conjunction with an attempt by Singer to enforce Gegauf Patent No. 1, Singer has not brought any action, commenced any proceeding, or made any attempt to enforce the Harris reissue patent or the Johnson patent (Stip. Par. 84(2), R. 55). Singer has not brought any action, commenced any proceeding or made any attempt to enforce Gegauf Patent No. 2 or the Perla patent by suit, notice or threat of suit (Stip. Par. 85, R. 55). Thus, at all times since the issuance of Gegauf Patent No. 1, Singer's efforts have been directed to preventing the sale of machines infringing Gegauf Patent No. 1.

Summary of Argument

I.

The Government contended in the trial court that the *first* sentence of Clause 1 of the Singer-Gegauf cross-license agreement, prohibiting actions by either party to restrict the scope of the claims of the other, was illegal. In its argument before the trial court the Government specifically advised the court that the "*only phase*" of the cross-license agreement that was illegal were the restrictions imposed by the first sentence of Clause 1. The trial

court found that the *first* sentence applied to foreign countries having opposition, nullity and invalidation proceedings to restrict the scope of claims. The Government now contends, for the first time, that the second sentence *also* prohibits either party from restricting the claims of the other and is illegal, and asks this Court to reverse the trial court for not finding such sentence illegal, notwithstanding its advice to the trial court that it made no such contention.

The second sentence does not provide, as the Government contends, that the parties shall not oppose or restrict the claims of the other and contains only the *affirmative* obligation *to facilitate* the allowance of claims. The only obligation not to oppose is the normal obligation of every contracting party, arising as a matter of law, not to interfere with or make impossible the carrying out of such party's contractual obligations. The obligation contained in this sentence to facilitate the allowance of claims as broad as possible, in accordance with the laws and regulations of the Patent Office concerned, encompasses no obligation to facilitate the allowance of illegal claims. Accordingly, there is no legally imposed correlative duty not to oppose illegally broad claims.

An obligation to facilitate the allowance of claims as broad as possible, even if not accompanied by the "in accordance with the laws" phrase, is clearly susceptible to the interpretation that it means claims as broad as possible commensurate with the prior art and the applicable law. If the provision were not clear as to its intent, it, as a matter of law, would be construed as having a legal intent rather than an illegal one, unless such construction were rendered unlikely by the surrounding facts and circumstances. The evidence is simply overwhelming that there was no desire or intent to obtain

broad patent protection regardless of the validity of the claims (*infra*, pp. 76-78). The trial court specifically found that Singer's institution of infringement suits placing squarely in issue the validity of the Gegauf patent "belies any intent on its part to acquire broad patent protection regardless of validity" (Op., R. 1711).

At the time of the execution of the cross-license agreement Singer and Gegauf had a common claim in their respective applications. Singer's patent department had drawn the claim contained in its Harris reissue patent and this very claim had been suggested, word for word, for interference to Gegauf by the Patent Office Examiner —a suggestion that requires an initial determination of legality. Singer's patent department felt and still feels that the claim was valid. The Patent Office had informally advised Singer that the claim was allowable. Gegauf had accepted the claim in interference and Singer felt sure that the claim would be awarded to Gegauf as filed (*infra*, pp. 78-79). The Government has itself conceded the validity of Gegauf Patent No. 1, the patent that issued upon the Gegauf application (Stip. Par. 93, R. 58; R. 86; Op., R. 1712). The *impression* that the Government attempts to create, that the claims of Gegauf Patent No. 1 could have been restricted, is squarely in the face of the facts and of its own Stipulation of Facts that such patent is valid.

The fact that the plain intent of the second sentence was to provide for the settlement of the contemplated United States interference proceeding and that, under such proceeding, whichever party was entitled to the claim would receive the claim, does not show that the parties "obligated themselves not to oppose" illegally broad claims

of the other (see Govt. Br. 50-51). Such conclusion from such premise is a plain *non sequitur*.

The provisions of Clause 1, intended to provide against litigation, were wholly incidental to the purpose of the agreement, which was to obtain a license vital to Singer's interest. The facts clearly establish that Singer's sole purpose in the negotiations was the obtaining of the cross-licensing provisions, and the trial court found that these provisions were the essence of the agreement and were so considered by the parties. There is not an iota of evidence that during bargaining negotiations any attention whatever was paid to the provisions of Clause 1, relating to the elimination of litigation. There is no evidence that they were as much as mentioned. The sinister objectives imagined by the Government did not exist, and that is established clearly by the evidence and by the trial court's findings.

II.

The trial court found that Singer's motive in requesting deletion from the Gegauf-Singer assignment agreement of a provision permitting Gegauf to sublicense Pfaff was to give Singer a better chance of prevailing before the Tariff Commission. The trial court did not find, as the Government asserts, that it was *Gegauf's* motive for agreeing to the amendment. Gegauf's consent, ultimately given, was no eager act of cooperation. Gegauf would make no amendment until it obtained from Singer indemnification from a liability unrelated to the amendment requested. The Government's argument that Gegauf cooperated with Singer to exclude "Japanese competitors"

through the Tariff Commission proceeding is wholly inconsistent with the facts that Singer declared, Gegauf knew, the Government admits, and the trial court found, that the Tariff Commission proceeding was brought to prevent the importation of *all* machines infringing Gegauf Patent No. 1 irrespective of the source of such machines. The whole episode, as the trial court found, was "further evidence of the arm's length dealing which had characterized all Singer's dealings with Gegauf" (Op., R. 1709).

III.

There is no issue in this case of an illegal aggregation of Gegauf Patent No. 1 and the Harris reissue patent. The Harris reissue patent is completely subservient to Gegauf Patent No. 1 and the Government so conceded in open court. Not a single sewing machine can be excluded by the Harris reissue patent that is not excludable by Gegauf Patent No. 1.

IV.

The Government has abandoned any contention that the alleged conspiracy involved the Gegauf No. 2, Johnson or Perla patents. No argument with respect to the aggregation or combination of these patents in Singer's hands is made anywhere in the Government's brief. Furthermore, the Government states that it accepts the trial court's finding as to Singer's and Gegauf's motivation in entering into each of the three contracts, and abandonment of such argument is a necessary consequence thereof since the trial court found that Singer's motive in acquiring Gegauf Patent No. 2 was to accomplish a purpose which was

wholly unrelated to enforcement of the patent. The Government has stipulated that Singer brought no action, commenced no proceeding and made no attempt to enforce such patent by suit, notice or threat of suit. Finally, the trial court found that there was no agreement or conspiracy to pool patents (Op., R. 1712). The Government does not challenge this finding either (Govt. Br. 27).

V.

Singer's acquisition of Gegauf Patent No. 1 and its enforcement of such patent against infringers was not a part of any combination or conspiracy and the trial court so found. The trial court found not only that there was no agreement or understanding of any kind outside of the three written agreements between the parties but found that there was no unity or identity of any common purpose or motive and that there was no conspiracy of any kind (Op., R. 1693, 1714). With respect to the Government's attempt to relate a provision of the Singer-Gegauf license agreement to an alleged conspiracy to pool patents, the trial court said, "The plain answer to this is that we have found that there was absolutely no agreement or conspiracy" (Op., R. 1712). It found that Singer's "sole interest" in obtaining the assignment of the patent was the protection of its 401 machine against infringers (Op., R. 1693).

The Government, while protesting that it relies solely on concerted action in the mutual interest of both, in fact relies and depends upon the existence of agreements between the parties outside of the written agreements not

to license others. It argues that restrictions upon Singer's right to license actually and for all practical purposes were as binding as an agreement (Govt. Br. 43-44), although elsewhere in its brief, while arguing another point, it states that there was no restriction upon the right to license (Govt. Br. 65).

Gegauf had no motivation for entering into a conspiracy and sold its patent rights because it received $90,000 therefor. In 1957, the year in which Gegauf, on December 5, sold his patent rights, Gegauf imported into the United States only 1,600 machines. He had no interest in expanding, and, as the trial court found, his interest was in Europe (*infra*, pp. 104-05). Singer, on the other hand, was selling its 401 machine at the rate of 150,000 machines a year (*infra*, p. 113). Gegauf did not assign its application to Singer motivated by the thought that Singer, by stopping the importation of a few multiple cam machines into the United States, could "cripple" the entire Japanese sewing machine industry to the extent that it could not compete effectively in Europe. The Government's contention to that effect is an argument of necessity, for which the Government cites no supporting evidence (Govt. Br. 48).

There was no power of coercion by Singer or Gegauf over the other and each was free to act in its own best interests. Up to the time that Gegauf made the assignment it was free to use its patent rights as it saw fit, and after Singer acquired the patent it was free to use the patent as it saw fit. Gegauf of course knew that Singer had invented and was marketing a machine under Gegauf's patent rights as licensee, that there would be infringers

of the patent when issued, the largest of which were Japanese, that Singer was paying a substantial sum of money for the patent, and that Singer frankly stated to Gegauf that the reason it wanted to purchase the patent was that Singer could enforce it better than Gegauf could (*infra*, p. 109). Neither mention of the obvious nor the conveyance or receipt of such obvious information constituted any part of a conspiracy.

There was no question of a concurrent or joint action against Japanese infringing machines. There was only one patent, and after Singer's acquisition of the patent it was completely free to act as it saw fit. Gegauf had no domination over Singer and had no capacity to affect Singer's actions. Neither hope that an item which can be used for one purpose only will be used for such purpose, nor mere reliance upon the individual self-interest of the purchaser to use such item for such purpose, constitutes a violation of the Sherman Act.

Singer's actions were not directed "against the Japanese" in the manner that the Government consistently uses; they were directed against them only in the sense that anything that is directed against the whole is directed against all its parts. The trial court expressly found that "The principal threat to the Singer machine came from the Japanese imports, not from European production, but Singer sought to bar all infringing machines" (Op., R. 1710).

The fact that Singer had no affirmative intention to license anyone at the time of its acquisition of the patent does not establish that it had an intention never to license the patent. Even if it had had a policy of not licensing, Gegauf had no right or interest in such policy and it could be changed at will by Singer in accordance with its wishes. The Government's argument that if Singer and

Gegauf operated wholly independently of each other it is just as much a violation of the law as if they had agreed upon a course of conduct (Govt. Br. 48) is wholly untenable. If the transferor of a patent having no promise or commitment whatever relies upon the purchaser's having a motive to enforce the patent in its own self-interest, that does not become a combination or conspiracy under Section 1 of the Sherman Act. *United States* v. *Parke, Davis & Co.*, 362 U. S. 29, 46-47 (1960).

VI.

The cases cited by the Government do not establish any combination or conspiracy in this case. Conspiracy requires an agreement, express or implied. It is true that a combination under the Act *can* exist without any agreement. But in combination cases not involving agreements there must be some dominating power exerted by one participant or group of participants, without legal justification, to compel the adherence by others to a desired course of action. In the instant case it is conceded that Singer and Gegauf made no agreements, express or implied, concerning the enforcement or the licensing of Gegauf Patent No. 1. It is clear that Gegauf had no power to dominate Singer with respect thereto.

VII.

The transactions between Singer and Gegauf did not result in dominance of the market or in any unreasonable restraint on competition. Those transactions must be tested in the light of the competitive market. *Report of the Attorney General's National Committee to Study the*

Antitrust Laws (1955) (p. 12); *United States* v. *Columbia Steel Co.*, 334 U. S. 495 (1948).

Singer's right to enforce its valid patent covering its 401 machine, which it invented, produced and sold, is not affected by the presence or absence of non-infringing machines in the market (*Virtue* v. *Creamery Package Mfg. Co.*, 227 U. S. 8, 33 (1913)). In fact, however, as the trial court found, the elimination of infringers would leave "as competitors all manner of sewing machines with devices capable of doing the same thing over which Singer had no control" (Op., R. 1716). Competing sewing machines include multiple cam, replaceable cam, manually operated and straight stitch sewing machines with zigzag attachments (Op., R. 1717). These findings are supported by the testimony of defendant's witnesses, exhibits in the form of competing machines and samples of the work produced by these machines, admissions of plaintiff's counsel and plaintiff's own witnesses (Appendix).

The facts show that Singer and Gegauf did not dominate the United States market and the vigor of foreign competition precluded any possibility of an unreasonable restraint by Singer's enforcement of the Gegauf patent. The undisputed evidence shows that the sewing machines covered by the Gegauf patent constituted a minimal percentage of the United States household sewing machine market in which they compete. On the other hand, the Japanese and Europeans had over 70% of such market. Even if there had been an agreement between Singer and Gegauf to enforce the Gegauf patent against infringers, such enforcement, particularly where the patent affects such a small proportion of the competition, would have constituted no unreasonable restraint of the market.

Argument

POINT I.

THE SINGER-GEGAUF CROSS-LICENSE AGREEMENT PROVIDES THAT THE PARTIES WILL NOT BRING OPPOSITION, NULLITY OR INVALIDATION PROCEEDINGS, WHERE SUCH PROCEEDINGS ARE AVAILABLE, AND THAT THEY WILL SETTLE INTERFERENCE PROCEEDINGS, WHERE SUCH PROCEEDINGS ARE AVAILABLE, IN ACCORDANCE WITH THE LAWS AND REGULATIONS OF THE PATENT OFFICE CONCERNED. SUCH PROVISIONS ARE ENTIRELY LEGAL.

The Singer-Gegauf cross-license agreement contains in Clause 1 two separate sentences. These are set up in the agreement and read as follows:

> "1) SINGER and GEGAUF each undertakes not to do anything, either directly or indirectly and in any country, the result of which might restrict the scope of the claims of the other party relating to the subject matter of the above mentioned patents and patent applications.
>
> "SINGER and GEGAUF each undertakes, in accordance with the laws and regulations of the Patent Office concerned, to facilitate the allowance in any country of claims as broad as possible, as regards the subject matter of the patents and patent applications referred to above." (Gx. 26 (S-3), R. 1067)

The Government contended before the trial court that the provisions of the *first sentence* of Clause 1 were illegal and declared to the trial court that the provisions contained therein were the "only phase" of the agreement which the Government contended was unlawful. The trial court found that the first sentence was applicable to foreign countries having opposition, nullity and invalidation proceedings and that the second sentence was applicable

to countries having interference proceedings, such as the United States (Op., R. 1681). The Government states that it is not directly challenging the trial court's finding that only the second sentence has application to the United States (Govt. Br. 52-53).*

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* While making this statement, the Government nevertheless seeks to obtain such advantage as may be obtained by presenting a summarized, inadequate and inaccurate statement questioning the correctness of a finding which it does not challenge. It is a technique for which we have slight esteem. Notwithstanding the fact that the Government's statements with respect thereto are inaccurate and misleading, two examples of which are set forth below, we will not argue on the merits of a finding which the Government does not challenge. The very adequate reason why the Government does not make such challenge can be found by an examination of pages 34-39, inclusive, of Defendant's Motion to Affirm the judgment herein, filed October 18, 1962.

1. The Government quotes the provisions of Clause 1 in conjunction with *only* two of the four immediately preceding preambles (Govt. Br. 14-15; see also 49-50) and on the basis thereof, with *apparent* plausability, asserts that the *cross-license agreement stated* "that it [the agreement] was made '[i]n view of' the parties' 'realiz[ation] that interference proceedings are about to be opened in the USA'" (Govt. Br. 50). These are half-truths, and, like so many half-truths, they are wholly misleading. There are other preambles preceding the two quoted by the Government. When all are read together it is easily seen that the agreement was also made in view of the fact that patents and patent applications *were pending in various foreign countries*, which in turn discloses that Clause 1 was not designed *merely* "to provide for the settlement" of United States interference proceedings, as claimed by the Government (Govt. Br. 50).

2. The Government, explaining the basis for its assertion that the first sentence should have been construed as applying to the United States, cites and quotes from a Stanford memorandum to show that Stanford supported its position (Govt. Br. 52, n. 25). The memorandum does no such thing (Dx. 31, R. 1413-14), and the Government has so conceded. In its Jurisdictional Statement, the Government stated to this Court that the trial court's finding that the first sentence applied to foreign countries and not to the United States was based on Stanford's said memorandum "so interpreting the written agreement" (J. S. 11, n. 13). In the Government's Post-Trial Brief, Stanford was bitterly assailed for having recorded in his memorandum that the first sentence applied to foreign countries and not to the United States ((unprinted), Tr. 6431).

A. The Government now, for the first time, argues that the provisions of the second sentence of Clause 1 are illegal.

On this appeal, the Government, for the first time, turns to the second sentence of Clause 1. In its Complaint the Government made no allegation with respect to the provisions of Clause 1, and the Complaint in no way relates to or encompasses a conspiracy or agreement to obtain broad patent claims or to refrain from making objection to any improper claim presented in any proceeding. There is not a reference in the Complaint to the obtaining of claims that are broader than the state of the art permits, illegal, void or in any way improper (R. 4-5).

Approximately 15 months subsequent to the filing of the Complaint and approximately 1½ months prior to the commencing of the trial, the Government in its Amended Statement of Contentions, filed March 24, 1961, injected into the cause a claim that the license agreement was an unreasonable restraint on trade and was illegal *per se* because, as there stated by the Government, the agreement prevents the parties from fully exercising their rights under the patent laws and regulations in that the parties agreed "to preclude themselves from moving to dismiss interferences on the ground that the count(s) involved in the interferences was unpatentable", and "to preclude themselves from moving to amend the interferences by substituting, for a count(s) believed to be too broad," a count of narrower scope (R. 79).

On September 20, 1961 the Government filed *with and for the trial court*, a Memorandum Relative to Defendant's Proposed Findings of Fact. It there made the following statements:

> "The Government has made no contention that the cross-licensing was unlawful. • • •

"The *only phase* of the cross-licensing agreements which the Government does contend was unlawful, is the provision in the defendant-Gegauf agreement of April 14, 1956 by which the parties agreed *not to do anything directly or indirectly, in any country the result of which might restrict the scope of the patent claims of the other party.* Although *this provision* was included in a cross-licensing agreement, the Government contends that it was not ancillary thereto and that *it* is, in and of itself, in violation of the Sherman Act." (R. 1650-51, emphasis supplied)

In its Post-Trial Brief, under the heading "The Singer-Gegauf Agreement of April 14, 1956 is Unlawful in Itself and Violates Sections 1 and 2", the Government stated:

"The Singer-Gegauf agreement of April 14, 1956 contains express provisions in which the parties agreed *not to do anything which might restrict the scope of the patent claims of each other. This agreement* was designed to permit the parties to obtain the broadest patents possible and, in addition to furthering both the conspiracy and the attempt to monopolize, it is, of and in itself, unlawful and violates both Sections 1 and 2 of the Sherman Act.

"*The provision* which is unlawful reads:

"'SINGER and GEGAUF each undertakes not to do anything either directly or indirectly and in any country, the result of which might restrict the scope of the claims of the other party relating to the subject matter of the [patents and patent applications which are the subject of the agreement]' [Govt. Ex. 26, p. 2].

"*This provision,* as a matter of law, violates the Sherman Act, *infra.*" (R. 1652, emphasis supplied)

The Government now says that these two statements "standing alone, do suggest that it was challenging only the first sentence" (Govt. Br. 54). That is surely an outstanding example of the art of understatement. The Government attempts to alibi out of those statements, *made directly to and for the benefit of the trial court*, by reference to occasions on which it or the trial court referred to the Government's objection to the obtaining of claims as "broad as possible". It fails to point out that in such instances what was being discussed was broad claims resulting from failure to interpose objections pursuant to the agreement "not to do anything which might restrict the scope of the patent claims" of the other. An example of this is found in the quotation last above set forth. After specifically referring to the agreement not to do anything that might restrict the scope of the claims of the other, the Government states to the trial court that "This agreement", meaning precisely and only the specified agreement contained in the first sentence, "was designed to permit the parties to obtain the broadest patents possible." It is, we submit, the sheerest sophistry to contend that this is a claim to the trial court that the second sentence of Clause 1 is illegal, *per se* or otherwise. Sometimes one speaks too clearly to permit subsequent befuddlement and in this instance the Government's language is clear beyond its present desire. It states that "the only phase" of the cross-licensing agreements which the Government contends is unlawful is the provision not to do anything to restrict the scope of the patent claims of the other, *supra*, pp. 68-69. It states: "The provision which is unlawful reads:", and then it sets forth in full the first sentence and not a word concerning the second sentence. It ends with the statement that "This

provision, as a matter of law, violates the Sherman Act", *supra*, p. 69.

What the trial court understood, and clearly understood, is set forth by the trial court itself. It states:

> "It is the Government's contention that aside from the unlawfulness of the Singer-Gegauf agreements as part of the alleged conspiracy, the license agreement is *per se* illegal under Sections 1 and 2 of the Sherman Act, *by reason of the provision under which each party agreed not to do anything directly or indirectly to restrict the other's claims in the respective patent applications,* • • •." (Op., R. 1711, emphasis supplied)

The fact that the Government in setting forth the terms of the agreement once or twice paraphrased the provisions of the second sentence does not help it in the slightest since, in connection therewith, it never once referred to the second sentence as being illegal, instead referring to the agreement as being illegal because of the restrictions imposed by the provisions of the first sentence (Govt. Br. 54, n. 26 and the references therein contained). To the best of our memory and research of the record, not once during the proceedings in the trial court was this second sentence even as much as set forth in full in any document presented by the Government, whether in its two Statements of Contentions, Proposed Findings, Comments on Defendant's Proposed Finding, or in its various briefs. Clearly, the second sentence did not strike the Government as being fuel for its contention. Now, driven by the loss of its former contention, the Government asserts that it made an argument, all along, which seemingly it never even conceived of.

The Government's desire to raise a new contention before this Court does not justify its request that this

Court reverse the trial court for not having found unlawful the provisions of the second sentence, when the Government itself advised the trial court that the *only* provisions of the agreement which it contended were illegal were the provisions of the first sentence of Clause 1. The Government argues that it did not "abandon" its contention that the second sentence is illegal (Govt. Br. 54). This misses the point. The point is that the Government never raised the issue and, on the contrary, *specifically advised the trial court that it was not raising the issue*, stating that the only provisions it contended were illegal were the provisions of the first sentence. This it did in the last two documents it presented to the trial court, *one of which was its Post-Trial Brief.*

B. The second sentence of Clause 1 contemplates, and provides for, the allowance of lawful claims. It does not prohibit opposition to illegal claims.

The Government spends almost two pages (Govt. Br. 49-51) to establish the fact that "the plain intent" of the second sentence of Clause 1 was "to provide for the settlement" of the contemplated United States interference proceeding and that under it whichever party was entitled to the claim would receive it.[9] All of this is obvious. What there follows, however, is far from obvious; it is a complete non sequitur.

[9] The Government's discussion may be a bit confusing. Although it does not challenge the finding that the first sentence of Clause 1 (which clause the Government calls "Paragraph 1") has no application in the United States, it sets forth in full *both* the first and second sentences, and thereafter in discussing the effect, intent and purpose of the second sentence continuously refers to the provisions of "Paragraph 1", thus including both sentences. Furthermore, by omission of the words "It appears to me that" from the beginning of the quotation starting on the fourth line from the bottom of page 50, the Government alters the spirit, purpose and intent of the quoted sentence.

Based solely upon the premise that the second sentence had "the plain intent" of providing for "the settlement of an interference proceeding" in the United States, and that the party entitled to the claim would receive it, the Government declares:

> "In short, Singer and Gegauf, each in undertaking *to facilitate the allowance* of the broadest possible claims by the other, *obligated themselves not to oppose* each other in the anticipated interference proceedings before the Patent Office." (Govt. Br. 51, emphasis supplied)

This completely erroneous statement is repeated throughout Point II of the Government's brief (pp. 25, 51, 53, 57-58, 63, 67, 69) and, though unsubstantiated by anything other than the Government's own declaration, it forms the foundation of its entire argument. The theme that the parties agreed "not to oppose each other" is repeated in conjunction with almost every argument it makes. In its summary of argument it states: "* * * and the parties undertook not to oppose each other in such proceeding." Its subheading on page 63 dealing with the second sentence does not even refer to the agreement "to facilitate" but says: "The agreement between Singer and Gegauf not to challenge each other's patent applications violated the Sherman Act." This is repeated with such regularity (Govt. Br. 25, 51, 53, 57-58, 63, 67, 69) that one may be inclined to forget that what is being discussed is a clause agreeing to facilitate the allowance of claims, which does not have a single word in it relating to not restricting the scope of claims.

A mere declaration by the Government that the second sentence imposes an obligation on the parties "not to oppose" each other neither establishes nor clarifies any-

thing. The second sentence is still there for consideration and analysis. This sentence does not say anything about the parties not opposing each other. On the contrary, it calls upon the parties to facilitate—an affirmative action. The obligation to facilitate imposes no obligation "not to oppose" *other than is imposed by the legal principle that it is a violation of a contract for a contracting party to prevent or impede the carrying out of its obligations thereunder.* The question then is, what is the nature of the obligation to facilitate and at what point does the obligation to facilitate terminate? At the point at which the obligation to facilitate terminates, freedom to oppose is complete since in the absence of an obligation to facilitate there exists no correlative restraint upon opposition, such restraint being imposed only when opposition is inconsistent with the obligation to facilitate. Thus, if the obligation to facilitate claims as broad as possible encompasses no obligation to facilitate illegal claims, then there is no correlative restraint upon opposition to illegal claims.

We submit that it is not at all difficult to determine under the second sentence of Clause 1 the point at which the obligation of Singer and Gegauf to facilitate ceases and freedom to oppose exists. The second sentence is a rather simple sentence and it is not hard to parse. The parties first undertake, or in other words they agree, that they will do something. Secondly, they agree to do what they are going to do in a particular manner. That manner is, "in accordance with the laws and regulations of the Patent Office concerned." Thirdly, what they undertake to do in accordance with the laws and regulations of the Patent Office concerned is to facilitate the allowance of claims as broad as possible. This phrase includes several elements. First, the parties will facilitate. Secondly, what

they will facilitate is an allowance, and, thirdly, what they are to facilitate the allowance of are "claims as broad as possible." There is not a single element of that phrase that is not modified by the controlling requirement that it is to be carried out or accomplished "in accordance with the laws and regulations of the Patent Office concerned." Nothing is obliged to be done that is contrary to any law or regulation and accordingly there is no correlative restraint on restricting the scope of any illegal or improper claim.

The Government throughout its brief repeatedly refers to Gegauf's and Singer's desiring, arranging or obtaining the "broadest possible claims".[10] Whether it considers that there is a significant difference between that phrase and the phrase "claims as broad as possible" which appears in the second sentence, we do not know. In any event, whether the phrase "broadest possible claims" or the phrase "as broad as possible" is used, the Government we think quite obviously intends, *without saying so*, to leave the *impression* that they encompass claims beyond those commensurate with the prior art and the applicable law (Govt. Br. 70). It however never specifically sets forth a meaning or interpretation to be attributed to the words "the broadest possible claims" or the words used in the agreement, "as broad as possible" and relies alone upon the sound and fury of the words.

Upon an analysis of the meaning of these words it becomes apparent that there is not necessarily anything illegal or improper in seeking to acquire or agreeing to acquire or agreeing to facilitate the acquiring of a patent

[10] As shown at pages 26-27 hereof, there is no evidence that the obtaining of broad claims or the provisions of Clause 1 were at any time mentioned or discussed by Singer or Gegauf. Any contention as to what they desired, arranged for or obtained must be based solely upon the written provision itself.

with claims as broad as possible. An agreement, for example, to facilitate the allowance of claims as broad as possible, if meaning "as broad as possible commensurate with prior art and the applicable law" would not be illegal in any way, much less *per se*. It necessarily follows that for an agreement to facilitate the allowance of claims as broad as possible to be illegal, the words "as broad as possible" must be construed to mean "without regard to the prior art and without regard to the applicable law" and must be deemed to encompass action, without regard for truth, whether or not involving fraud, concealment, failure to disclose or other similar conduct. There is not the slightest evidence that they were so intended and, as a matter of law, in the absence of circumstances which compelled such a construction, it would not be made. It is a well-established principle of law, stated and cited frequently, that where two constructions of a written contract are possible, preference will be given to that which does not call for or result in violation of the law. *Great Northern Railway Co.* v. *Delmar Co.*, 283 U. S. 686 (1931); 3 Corbin, *Contracts* §546 (1960); 4 Williston, *Contracts* §260 (3d ed. 1961); 17 C.J.S. *Contracts* §318 (1939).

On the face of the record in this case and the findings of the trial court with respect to the motives and intents of the parties, it would, we submit, be ludierous for the Government to contend that Singer desired or endeavored to obtain an agreement under which it could obtain a claim beyond that commensurate with prior art and the applicable law by resort to fraud, concealment, failure to disclose or otherwise. That Singer had no such intent or desire is shown by the following finding of the trial court:

> "The fact that it has instituted action on the Gegauf patent, thus placing squarely in issue its validity,

as well as the validity of its other patents, belies any intent on its part to acquire broad patent protection regardless of validity." (Op. R. 1711)

Among the numerous facts relevant to the trial court's finding that there was no intent to obtain broad patent protection regardless of validity and supporting the fact that no limitation on the right to restrict the scope of illegal claims was intended or desired are the following:

1. The agreement was not made in a vacuum. It was made with reference to specific claims covering specific subject matter embodied in specific applications (Gx. 26 (S-3), R. 1066-67; Gx. 173, R. 1237-38; Gx. 175, R. 1268-69).

2. There existed at all times and was clearly evidenced a resolute determination that the interference proceeding should be conducted in accordance with the laws of the United States in such manner as would result in a valid patent, the desirability and necessity of which was repeatedly expressed in writing (Gx. 38, R. 1083; Gx. 39, R. 1084; Gx. 40, R. 1085; Gx. 41, R. 1086; Stanford, R. 502-03, 515-17).

3. The claims of the patent obtained are valid and are conceded by the Government to be valid (Op., R. 1712; Stip. Par. 93, R. 58; R. 86).

4. Singer acquired Gegauf Patent No. 1 for the purpose and with the expectation of enforcing it against infringers thereof, and it was obvious that that would include Japanese manufacturers and importers (Op., R. 1693-95), part of a powerful cartel backed by the Japanese Government (Fairman, R. 801-09, 821; Sogi, R. 886-98; Dx. 176-83 (unprinted), Tr. 5676-5742; Gx. 202 (unprinted), Tr. 5122-32).

5. Singer promptly placed the validity of such patent squarely in issue by bringing an infringement action against the largest distributor of Japanese sewing machines, the sole representative of one of the largest sewing machine manufacturers in Japan, which subsequently moved to stay proceedings therein. Singer, in addition to bringing such action, vigorously attempted to bring about a prompt judicial determination of validity of Gegauf Patent No. 1, by bringing actions in jurisdictions which permitted a prompt trial, which failed in its purpose and resulted in consent decrees because no manufacturer or distributor would undertake the defense of the actions brought by Singer. (See pages 54-56, *supra*.)

C. The provisions of the second sentence agreeing to facilitate the allowance of claims as broad as possible must be considered in the light of the surrounding circumstances.

At the time that the Singer-Gegauf cross-license agreement was executed Singer and Gegauf had a common claim in their respective United States Harris reissue and Gegauf applications. This resulted from the fact that the claim drawn by Singer and set forth in its application had been suggested, word for word, by the Patent Office Examiner to Gegauf for interference, and such suggested claim had been accepted by Gegauf (Gx. 173, R. 1237-38; Gx. 175, R. 1267-69). Before the Patent Office Examiner declares or suggests an interference an initial determination must have been made that the claim is allowable (Govt. Br. 59; 37 C.F.R. §1.203 (a) (b)).

Singer's patent department had searched the world in an endeavor to find material with which it could destroy or limit the Gegauf patent (Dx. 19, R. 1392-94; Dx. 21-26,

R. 1395-1406; Stanford, R. 485-86; see also Stip. Par. 27, 1st two sentences, R. 32; Dx. 4, R. 1370-72; Dx. 6-9, R. 1376-83; Stanford, R. 463-64). It failed to find any such material and instead found itself in serious difficulty with its 401 machine (Stanford, R. 485-86; Dx. 26, R. 1405-06). Singer's Swiss patent attorney had advised that Gegauf's Swiss patent was valid (Dx. 31, 1st paragraph, R. 1411-12; Stanford, R. 500-01). Singer's British patent attorney had advised that Vigorelli's British application was allowable (Gx. 10, R. 1032; Stanford, R. 488-89). Singer's patent department had itself drawn and inserted the suggested claim in its application (Gx. 173, R. 1237-38) and considered it and still considers it valid in all respects (Stanford, R. 588). The Patent Office Examiner had determined the claim to be allowable (Gx. 175, R. 1267-68). The Patent Office had informally advised Singer that the claim was allowable (Stip. Par. 37, R. 36; Op., R. 1678). Gegauf had accepted the claim in interference (Gx. 175, R. 1268-69) and Singer felt sure that the claim would be awarded to Gegauf as filed (Op., R. 1681).

We submit that it is simply absurd for the Government to scrape the leavings of bargaining negotiations to find threats by one of the bargaining parties that if it did not obtain a license it would destroy or limit the claim of the other (Govt. Br. 14, 33, 63), and then attempt to use such threats as proof that the parties, instead of litigating, made an agreement so as to be free to obtain the broadest possible patents to use against common competitors (Govt. Br. 33, 62). Certainly there is a point in every litigation at which a litigant is called upon to display some semblance of common sense. A person whose most important machine is subject to be foreclosed from markets throughout the world if a license is not

obtained does not ordinarily walk up to a patent application owner and potential licensor and say: "You must feel good to be in such a wonderful position with patent claims clearly valid and clearly enforceable in all the markets in which I would like to sell." On the contrary, threats of litigation in such circumstances are a dime a dozen. Singer commenced with threats of litigation with Vigorelli, commenced with threats of litigation with Gegauf, and commenced with threats of litigation with Messerschmitt. That they should be presented as establishing that Singer in entering into the agreement was motivated by a desire to preserve for itself and Gegauf the ability to obtain illegally broad claims, is beyond credence, and all the more so when urged in conjunction with an argument by the Government that the purpose of the alleged conspiracy was to get patents to use against Japanese manufacturers. When it is considered that Japanese sewing machine manufacturers are members of one of the most powerful cartels in the world, closely controlled and regulated by the Japanese Government and backed by practically unlimited financial resources (Fairman, R. 801-09, 821; Sogi, R. 886-98; Dx. 176-83 (unprinted), Tr. 5676-5742; Gx. 202 (unprinted), Tr. 5122-32), it seems ridiculous to suggest that Singer wanted or intended to obtain illegally broad patents with which to conduct its fight. Singer knew that it did not want invalid patents for any purpose, and that is why Stanford wrote to Gegauf:

> "• • • it is most important that the interference be settled properly so that the prevailing party will ultimately be awarded a valid patent" (Gx. 41, R. 1086).

The caliber of the foregoing "proof" of a Government contention suggests another bit of "proof" used by the Government. It asserts that "the patent information Singer had received from its Italian office could have been used to challenge the scope and validity of Gegauf's United States application" (Govt. Br. 62). For this statement the Government relies upon a report by Singer's representative in Italy that Vigorelli *reported* that one of the reasons that Gegauf had given to Vigorelli a royalty-free license was "The exhibition by Vigorelli of patents, • • • which apart from excluding that the general claim (multiple cams) could be sustained, also left open to discussion the specific claim (single cam follower) contained *in the two patents under discussion*" (Gx. 19, R. 1052, emphasis supplied). It is obvious we think that the "which apart from" clause is setting forth what Vigorelli *is reported to have reported* that *he said* to Gegauf.

The Government is not too well satisfied with the quality of its proof, because in setting it forth it makes one substitution and one omission. It says that Singer "learned," when Singer "heard," and it omits the statement that Singer's representative *reported that Vigorelli reported* the matters set forth (Govt. Br. 62; Gx. 19, R. 1051-52), a very substantial difference, of course. The "two patents under discussion" were not identified.

On the basis of this hearsay statement by a person wholly unqualified to pass judgment on patent matters and who in making it was defending his own and attacking Gegauf's position, the Government states that "the patent information" received "could have been used to challenge the scope and validity of Gegauf's United States application." The Government phrases this statement with great care. Although having quoted a statement the import of which was that the patents listed could have excluded "the

general claim (multiple cams)" and have "left open to discussion the specific claim (single cam follower)," the Government carefully refrains from asserting that such patents could have precluded or limited Gegauf's concept of a series of rotary cams having a single retractable cam follower shiftable relative to each other, lengthwise of the common cam axis, by means of a device mounted on the exterior of the machine, in order to select a particular cam for controlling the lateral movement of the needle or, in other words, that they could have limited in any way Gegauf Patent No. 1.

One thing is certain, the Government preferred the type of proof it here relies upon to the patents themselves. The list of patents reported to have been exhibited by Vigorelli to Gegauf was enclosed in the report. The Government not only obtained and examined the report and the list of patents before the Complaint was filed, but put the report and the list of patents in evidence (Gx. 19, R. 1050-54). The Government does not explain how, if the patents listed could have been used to challenge the scope and validity of the Gegauf patent, it accepted for all the purposes of this litigation the validity of that patent. The Government, in possession of all patents involved in this litigation, was given every opportunity in pre-trial proceedings to specify whether it contended that Gegauf Patent No. 1 was invalid, and it was under constant pressure from the defendant that it do so. The result is embodied in the Government's stipulation that it does not dispute the validity of the claims of the Gegauf patent (Stip. Par. 93, R. 58), and its statement in the record that the validity of no one of the patents involved is challenged "in and of themselves and absent this alleged conspiracy" (R. 86).

On the question of the Government's concession there is no question as to what the Government intended to concede or as to the reason for it and no amount of quibbling will alter the purpose or significance of its concession set forth in Paragraph 93 of the Stipulation of Facts. The trial court not only sat in on but supervised the drafting of the entire Paragraph 93. In its Findings, the trial court flatly stated: "the claim of Gegauf I was concededly valid" (Op., R. 1712). If there were any doubt as to what was intended one might consider the following colloquy:

> "The Court: All right. The government does not question the validity of any of these patents that issued in and of themselves and absent this alleged conspiracy, does it?
>
> "Mr. Elkins: No, it does not, your Honor" (R. 86).

There is not the slightest evidence that there was any patent which in any way interfered with or endangered Gegauf's invention. Patents upon such invention have been granted in the United States and Canada (Gx. 107, R. 1171-72), and Switzerland (Dx. 31, 1st paragraph, R. 1412; Stanford, R. 500-01) and a British patent thereon was considered allowable by British counsel (Gx. 10, R. 1032; Stanford, R. 488-89).

D. The importance of the provisions embodied in Clause 1 is artificially blown up by the Government out of all proportion to its true significance and purpose.

The provisions of the license agreement relating to interference proceedings and to opposition and nullity proceedings were wholly incidental to the purpose of the

agreement. The facts heretofore set forth (*supra*, pp. 6-29) establish beyond question that the sole purpose of Singer's negotiations was the obtaining of the cross-license provisions. Singer had an overriding necessity to obtain a license and that, the trial court found, was its sole interest (Op., R. 1683-84).

Singer and Gegauf were complete strangers, whose representatives, speaking different languages, had just met (*supra*, p. 24; Stanford, R. 499). One of them, Singer, was under dire pressure to obtain a license to keep not only the United States markets but markets in other countries from being foreclosed to it on its most important machine, *supra*, pp. 6-29. The other, Gegauf, was suspicious of Singer's intentions (*supra*, p. 25). As stated by the trial court, "If one were to describe the attitude of these alleged 'conspirators' throughout, it would have to be in terms of suspicion, wariness and self-preservation. It is most striking that, throughout, their dealings were characterized by an absence of unity or identity of any common purpose or motive" (Op., R. 1693). It was in this atmosphere and with these feelings that the parties met and negotiated. That the obtaining of the license provisions constituted the motivating force and that the license provisions constituted the purpose and substance of the agreement is obvious. The trial court so found, stating that such provisions "were the essence of the agreement and were considered so by the parties" (Op., R. 1682).

The blowing up of the provisions of Clause 1 into the magnitude which the Government attempts is in our judgment a plain distortion of their significance and importance. There is not an iota of evidence that any attention whatever was paid to these provisions during the bargaining negotiations. *There is no evidence that they were as much as mentioned.* These provisions were not even of enough

importance for the Government to give any consideration to them until months after the Complaint was filed (*supra*, p. 68), when it found that it was in dire difficulty with its charges of conspiratorial agreements among the alleged conspirators.

These provisions grew from a draft prepared by Gegauf (Stanford, R. 500; Gx. 24, R. 1064; Gx. 25 for Id., R. 1064-65; Op., R. 1680). They were not originally prepared by Stanford, as the Government would lead this Court to believe (Govt. Br. 53, n. 25) and the Government knows this well since it offered Gegauf's draft in evidence (R. 107-08; Gx. 25 for Id., R. 1064-65; (unprinted), Tr. 128-32). Gegauf's draft was taken by Stanford and subsequently rewritten by him (Stanford, R. 500) with the objective of having in substance the same provisions designed to avoid litigation which he had written into the Vigorelli license agreement and which he subsequently wrote in the Messerschmitt license agreement (Stanford, R. 486-88, 500-04; Dx. 133, R. 1535; Dx. 31, R. 1413-14). His endeavor was to do this while keeping the provisions as nearly as possible in the form furnished by Gegauf (Stanford, R. 500). Stanford's desire and purpose under the circumstances which confronted him, can be readily understood. He considered that he had succeeded in having the provisions of Clause 1 be the same in substance as the provisions of the Vigorelli license agreement (Stanford, R. 486-88, 500-04; Dx. 31, R. 1413-14). Singer repeatedly asserted that it was seeking an agreement "similar" to the Vigorelli agreement (Op., R. 1678; Stip. Par. 38, R. 37; Gx. 16, R. 1044, last paragraph; see also Stip. Par. 37, R. 37; Dx. 28, R. 1408, last paragraph; Dx. 35, R. 1422). The Government in turn has stipulated (Stip. Par. 38, R. 37; see also Stip. Par. 37, R. 37) and has repeatedly stated

that Singer desired an agreement "similar" to the Vigorelli agreement (R. 77, 82; Govt. Br. 62, see also Govt. Br. 12), which the Government lauds as clearly limiting the reach of the agreement therein contained "not to restrict the scope of competing claims" *to those countries* "which had 'opposition, nullity or invalidation proceedings' " (Govt. Br. 53, n. 25). That Stanford fulfilled his desire to rewrite the Gegauf draft to obtain in substance the same provisions as those contained in the Vigorelli agreement is, we submit, demonstrated by Defendant's Exhibit 133, R. 1535, and the trial court so held in finding that the first sentence applied to certain foreign countries and that the second sentence applied to countries with interference proceedings.

The sinister objectives imagined by the Government did not exist and that is established clearly by the evidence and by the trial court's findings.

POINT II.

THE AMENDMENT OF THE GEGAUF-SINGER ASSIGNMENT AGREEMENT CONSTITUTED NO CONSPIRACY OR ANY PART OF A CONSPIRACY BETWEEN SINGER AND GEGAUF

A. Singer requested the deletion from the Gegauf-Singer assignment agreement of the provision with respect to Pfaff in order to have a better chance of prevailing before the Tariff Commission.

The Government, citing Op., R. 1709, asserts that "Singer and Gegauf agreed to amend" the terms of the Gegauf-Singer assignment agreement "in order to give Singer 'a better chance of prevailing before the Tariff Commission' " (Govt. Br. 38-39). The fact, and the cited finding of the trial court, is that this was *Singer's* motive *for*

requesting the amendment, not that it was a motive of Gegauf in agreeing to the amendment.

In paragraph (3) of the Gegauf-Singer assignment agreement of December 5, 1957 Singer agreed not to introduce, without the consent of Gegauf, legal proceedings against Pfaff on the basis of any patent issued upon the applications assigned to Singer by Gegauf as far as sewing machines manufactured in Pfaff's factory in Kaiserslautern, Germany, were concerned (Gx. 58 (S-10), R. 1109-10).

Shortly before May 27, 1959, during the hearings before the Tariff Commission, Singer was asked by the Commissioners if Pfaff was licensed under Gegauf Patent No. 1 (Op., R. 1709; Gx. 130, R. 1193). Singer replied that Pfaff had no such license (Op., R. 1709; Gx. 130, R. 1193). It felt that its answer to the Commissioners was perhaps not too convincing in view of paragraph (3) referred to above under which Gegauf of course did have power to protect Pfaff or in practical effect to give it a sub-license (Op., R. 1709, 1710; Gx. 130, R. 1193). On May 27, 1959 Singer requested that Gegauf amend the assignment agreement to delete therefrom the provision of paragraph (3) with respect to Pfaff (Op., R. 1709; Gx. 130, R. 1193-94).

The trial court set forth Singer's request and with respect thereto found: "The sole motive and reason prompting this deletion was very plainly and unequivocally expressed by Singer; it was that Singer might 'have a better chance of prevailing before the Tariff Commission' in its efforts to exclude all machines which infringed on Gegauf I" (Op., R. 1709). The Government, as said above, misstates this finding of the trial court. It converts it into a finding that "Singer and Gegauf

agreed to amend" the agreement "in order to give Singer 'a better chance of prevailing before the Tariff Commission.' (Op., R. 1709.)" (Govt. Br. 38-39). It thus squarely changes a motive of Singer's *in asking for an amendment* into a motive of "Singer and Gegauf" *in executing the agreement*, thus bringing Gegauf into a statement expressing a motive, which the trial court clearly attributed solely to Singer. The Government does this notwithstanding the fact that in its Post-Trial Brief it said, *"Singer* sought the assistance of co-conspirator Gegauf in 1959 in order to improve *its* chances of prevailing before the Tariff Commission in *its* exclusionary efforts" ((unprinted), Tr. 6409, emphasis supplied).

In its Post-Trial Brief the Government devoted to the discussion of Singer's request to Gegauf exactly one sentence, the sentence immediately above quoted ((unprinted), Tr. 6409). In neither its Post-Trial Brief nor in its Jurisdictional Statement did the Government as much as make mention of the *agreement of amendment*, which it now presents to this Court as a major conspiratorial act of cooperation, one of the three pillars of its case.

B. Gegauf extracted a toll from Singer as a condition to Gegauf's consent to the deletion of the Pfaff provision.

The Government does not mention the fact that Gegauf would make no amendment until it extracted from Singer a consideration it demanded, and expressly notified Singer that it would not (Gx. 132, R. 1195). Gegauf on June 10, 1959 replied to Singer that "in principle" it was ready to amend the assignment agreement to omit mention of Pfaff but only on certain conditions insisted upon by Gegauf (Op., R. 1709; Gx. 132, R. 1194-95). It may be remembered

that paragraph 6 of the Singer-Gegauf cross-license agreement of April 14, 1956 provided that each party must disclose to the other any agreement already concluded relating to the patents or patent applications covered by the agreement (Gx. 26 (S-3), R. 1067). Gegauf in its reply, for the first time, advised Singer that on May 5, 1955 it had executed an agreement with Phoenix, a West German manufacturer of household sewing machines, which granted to Phoenix "unlimited right to use the principle described" in Gegauf's German patent application covering a stack of cams with a single cam follower (Gx. 132, R. 1194-95, (unprinted), Tr. 3735; Op., R. 1708, 1709). Although the language of the grant, on its face, appeared to grant Phoenix complete rights under any Gegauf patent covering such principle, Gegauf said that he considered that his agreement related only to Gegauf's German application and was applicable to West German territory only (Gx. 132, R. 1195). He, however, was quite unwilling to act upon his conclusion. On the contrary, he demanded that the proposed amendment substitute Phoenix for Pfaff or, in the alternative, if Singer did not desire that, he stated he would agree that both Pfaff and Phoenix be omitted "under the explicit condition that you assume to their full extent all consequences that might fall on us on account of our agreement with Phoenix from April 5th, 1955" (Gx. 132, R. 1195; Op., R. 1709). He added: "We look forward to your comment", and of course did not return to Singer the proposed agreement it had sent to him deleting the provision relating to Pfaff (Gx. 132, R. 1195; Gx. 131 (unprinted), Tr. 3731-32).

Singer was annoyed that Gegauf had not disclosed the existence of such Phoenix agreement to Singer, as

Gegauf was required to do under paragraph 6 of the Singer-Gegauf cross-license agreement, particularly in view of the fact that it was Gegauf who inserted such paragraph in the cross-license agreement, and it disliked Gegauf's attitude (Op., R. 1709-10; Gx. 136, R. 1199; Gx. 26 (S-3), R. 1067). In order, however, to obtain deletion of the provision with respect to Pfaff from the assignment agreement, Singer had to submit to Gegauf's demand (Op., R. 1710; Gx. 136, R. 1199-1200). On July 14, 1959 Singer wrote to Gegauf agreeing to indemnify Gegauf against losses Gegauf might sustain through any legal action which might be brought by Phoenix against Gegauf based upon a claim by Phoenix that the agreement of May 5, 1955 extended any rights to Phoenix under the United States Gegauf Patents Nos. 1 and 2 (Op., R. 1710; Gx. 137, R. 1202). Gegauf thereupon executed an agreement dated July 22, 1959 deleting the provision with respect to Pfaff from the assignment agreement (Op., R. 1710; Gx. 139, R. 1204-05).

The Government refers to this as "the continuing cooperation of Singer and Gegauf to exclude their Japanese competitors" (Govt. Br. 38) and asserts that it shows that "Singer could count on Gegauf to assist it in the tariff proceeding" (Govt. Br. 47, n. 23). And so Gegauf, who in its assignment agreement had reserved a right to protect Pfaff because of "long time very friendly personal connections with the directors of Pfaff" (Gx. 139, R. 1206), who had "never extended" to Pfaff any of the rights so reserved (Gx. 139, R. 1206), who at the time of Singer's request to it had "no close connection whatsoever with Pfaff" (Gx. 132, R. 1194), and who, upon being requested to give up a right which meant practically nothing to him, demanded indemnification from liability

that might accrue to him for a possible past breach of a contract with Phoenix, which had no relationship to Singer's request to Gegauf to eliminate the provision relating to Pfaff except as such request created an occasion for Gegauf to bludgeon Singer, which it forthwith did, is pictured by the Government as ardently rushing to Singer's aid and "cooperating" with it in prosecuting the Tariff Commission proceeding against "Japanese competitors", thus establishing a boycott by Singer and Gegauf against the Japanese Empire. All of this with respect to a proceeding which Singer declared (Ex. S-11, R. 1597, 1616-17; Gx. 130, R. 1193; Gx. 158, R. 1219), Gegauf knew (Gx. 160, R. 1221; Gx. 139, R. 1206), the Government admits (Govt. Br. 20, 23, 38), and the trial court found (Op., R. 1707, 1709, 1710), had been brought to prevent the importation of all infringing machines whatever their source—Japan or Europe. Not very convincing, we submit.

The trial court referred to this Pfaff-Phoenix amendment episode as "further evidence of the arm's length dealing which had characterized all Singer's dealings with Gegauf" (Op., R. 1709).

POINT III.

THERE IS NO ISSUE IN THIS CASE OF AN ILLEGAL AGGREGATION OR COMBINATION OF GEGAUF PATENT NO. 1 AND THE HARRIS REISSUE PATENT IN THE HANDS OF SINGER.

Claims 5, 6 and 7 of the Harris reissue patent, the only claims therein relating to a multiple cam mechanism, each claims *every element* of Claim 1 of Gegauf Patent No. 1 in *conjunction with* some other feature (Dx. 137, R. 1540; Stip. Par. 29, R. 33; Stanford, R. 587-88). The

Harris reissue patent thus is wholly subservient to Gegauf Patent No. 1 and not a single sewing machine can be excluded by the Harris reissue patent that is not excludable by Gegauf Patent No. 1. Such fact is fully covered in Paragraph 29 of the Stipulation of Facts (R. 33) and it was conceded by the Government in open court. At page 150 of the printed record the following colloquy appears:

> "Mr. Pettit: • • •
>
> "He [Mr. Elkins] has not pointed out—and I think he should point out—that the Harris patent cannot possibly be infringed without infringing the Gegauf one.
>
> • • • • •
>
> "Mr. Elkins: We agree, incidentally with what Mr. Pettit has to say about the coverage of the Gegauf one patent and the coverage of the Singer-Harris patent."

Government counsel further advised the trial court that the acquisition of the Harris reissue patent by Singer "did not contribute at all to the offenses which we allege here" (R. 209).

POINT IV.

THE GOVERNMENT HAS ABANDONED ANY CONTENTION THAT THE ALLEGED CONSPIRACY IN ANY WAY INVOLVED GEGAUF PATENT NO. 2, THE JOHNSON PATENT OR THE PERLA PATENT.

A. Gegauf Patent No. 2.

The Government clearly has abandoned any contention that the alleged conspiracy in any way involved Gegauf Patent No. 2, on which Singer has brought no action, commenced no proceeding and made no attempt to enforce

by suit, notice or threat of suit (Stip. Par. 85, R. 55). The Government's present argument does not relate to such patent. It argues that the purpose and intent of the cross-license agreement, the assignment agreement, the amendment of such agreement were, respectively, to obtain protection under Gegauf Patent No. 1 against Japanese machines, to enable Singer to enforce Gegauf Patent No. 1 against Japanese infringing machines and to give Singer a better chance of winning the Tariff Commission proceeding, a proceeding based solely on Gegauf Patent No. 1 (Govt. Br. 23-24). Thus, the purpose and intent on which the Government relies to establish the alleged conspiracy relate to Gegauf Patent No. 1 only and in no way to Gegauf Patent No. 2.

Furthermore, such abandonment is a necessary consequence of the Government's acceptance of the trial court's findings as to Singer's motivation in entering into the agreement assigning Gegauf Patent No. 2 to it (Govt. Br. 27). The trial court found that Singer's motive in obtaining Gegauf Patent No. 2 was to avoid any possibility of a dispute with Messerschmitt, to whom Singer had granted a license to sell in the United States machines which could have been excluded by Gegauf if it held Gegauf Patent No. 2 (Op., R. 1695-96). Singer's motive in acquiring Gegauf Patent No. 2, as found by the trial court, had nothing to do with the enforcement of the patent, and, as said, the Government has accepted such finding.

B. The Johnson and Perla patents.

The Government likewise has clearly abandoned any contention that the alleged conspiracy in any way involved

the Johnson or Perla patents.[11] The Government makes occasional factual reference to these patents in its Statement of Facts, but in its argument it does not once refer to the Perla patent, and makes only a reference to the fact that certain infringement actions brought by Singer against machines infringing Gegauf Patent No. 1 included the Johnson patent. There is no suggestion in the argument or elsewhere that any issue is raised as to an illegal aggregation or combination of these patents with any other patent in Singer's hands. Furthermore, the trial court answering the Government's charge that there was an underlying agreement or conspiracy to pool patents, stated that the "plain answer" to this was that it had found that "there was absolutely no agreement or conspiracy." The Government does not challenge this finding (Govt. Br. 27).

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[11] The Government concedes that the Johnson and Perla patents resulted from Singer's own research and that such patents were lawfully acquired (Op., R. 1654-55; R. 166, 209). If these patents had been issued during the years 1957, 1958 and 1959, they would have been able to exclude, respectively the following number of machines not excludable by Gegauf Patent No. 1 alone had it been so issued, such number representing the portion of the household sewing machine market in the United States indicated:

	1957	1958	1959
Number of machines ...	0	249	800
Portion of market	0.00	0.00015	0.0004

Thus, out of every 10,000 household sewing machines in the United States market during the year 1959, the two Singer patents would have been able to exclude four machines that would not have been excludable by Gegauf Patent No. 1, or one twenty-fifth of one per cent (Stip. Pars. 128-29; R. 65; Ex. S-22-S-23 (Gx. 188-89), R. 1332; Ex. S-27 (Gx. 193), R. 1335; Ex. S-20 (Gx. 196), R. 1337; see Appendix, p. 13a, for the figures from which the above portions were calculated and the evidence upon which such figures are based).

POINT V.

SINGER'S ACQUISITION OF GEGAUF PATENT NO. 1 AND ITS ENFORCEMENT OF SUCH PATENT AGAINST INFRINGERS WAS NOT A PART OF ANY COMBINATION OR CONSPIRACY.

We believe that the foregoing portion of this brief disposes of various side issues raised by the Government on this appeal and leaves as involved herein solely Singer's acquisition and enforcement of Gegauf Patent No. 1. The Government argues that Singer's acquisition and enforcement of Gegauf Patent No. 1 constituted a combination and conspiracy between Singer and Gegauf. The trial court ruled against the Government on every issue it raised in connection therewith.

The trial court made among others the following findings:

> "With the exception of these specific limitations [set forth in the assignment agreement] on Singer's right to assert the Gegauf patent when issued, no agreement was made or understanding reached by the parties with respect to the licensing, enforcing or use of their patents. These writings were the entire agreement of the parties.
>
> "If one were to describe the attitude of these alleged 'conspirators' throughout, it would have to be in terms of suspicion, wariness and self-preservation. It is most striking that, throughout, their dealings were characterized by an absence of unity or identity of any common purpose or motive. Singer's sole interest was to protect its '401' machine against all infringing machines." (Op., R. 1693)
>
> "[The agreement] resulted from a fixed determination on each one's part to give and pay for nothing more than was absolutely necessary to secure its

respective end and to carry on the protracted negotiations as distantly as possible." (Op., R. 1694)

"Here, certainly, was further evidence of the arm's length dealing which had characterized all Singer's dealings with Gegauf." (Op., R. 1709)

With respect to an attempt by the Government to relate one of the provisions of the Singer-Gegauf license agreement to an alleged conspiracy "to pool patents" in Singer and to establish broad patent monopolies in both conspirators, in order to exclude Japanese competition, the trial court stated:

"The plain answer to this is that we have found that there was absolutely no agreement or conspiracy." (Op., R. 1712)

Referring to a restriction on Singer's right to sue Pfaff contained in the Gegauf-Singer assignment agreement, the trial court said:

"Aside from this there was no other understanding or agreement with respect to licensing or enforcing by infringement action or otherwise, any patent, then owned or subsequently acquired, or with respect to the use in any way of any such patent, alone or in conjunction with any other patent. The written agreement expressed the complete agreement and understanding of the parties and we conclude that it contained nothing illegal." (Op., R. 1714)

In an endeavor to surmount these findings of the trial court the Government sets forth statements, throughout its brief, of its conception of Singer's and Gegauf's alleged

conspiracy, in various forms, including all of the following:

	Govt. Br. Page
". . . engage in a course of concerted conduct intended to further their joint purpose of eliminating common competitors"	23
". . . agreed together upon acts intended to enable one or both of them to exclude their Japanese competition . . . for their mutual benefit"	23
". . . cooperated . . . to facilitate the exclusion of their common competitors"	23–24
". . . conspired together by pursuing a common exclusionary purpose through concerted acts . . ."	24
". . . engaged in a course of concerted conduct that . . . was intended to further their joint purpose of excluding their common competitors, the Japanese . . ."	26
". . . concerted efforts to exclude common competitors . . ."	27
". . . repeated joint action motivated by a common purpose to exclude competitors . . ."	27
". . . AGREED UPON CONCERTED ACTS . . . TO EXCLUDE THEIR JAPANESE COMPETITION . . ."	28
". . . facilitate by cooperative conduct the exclusion of competitive Japanese machines . . ."	31
". . . shared purpose of excluding the Japanese . . ."	33
". . . cooperative efforts of Singer and Gegauf to eliminate their joint competitors, the Japanese"	34

Govt. Br. Page

". . . continuing cooperation of Singer and Gegauf to exclude their Japanese competitors . . ." 38

"AGREEMENTS . . . TO ACT TOGETHER SO AS TO EXCLUDE COMMON COMPETITORS . . ." 39

". . . motivated by a common desire to exclude their Japanese competitors from the United States, discussed and agreed upon concerted acts which could best effectuate this mutual purpose . . ." 39

". . . acting in concert for the explicitly and repeatedly stated purpose . . . to exclude common competitors" 39

". . . cooperate in their efforts to exclude the Japanese . . ." 42

". . . cooperative transfer . . . for a joint, exclusionary purpose . . ." 42

After the Singer-Gegauf cross-licensing agreement ". . . Gegauf could not have proceeded to license the Japanese without considering and giving weight to the consistency of any such action with the spirit of its prior arrangements with Singer" 43

After the Gegauf-Singer assignment agreement "Singer could not, consistently with the expectations it had purposely engendered in Gegauf, then turn and license the Japanese without the consent of Gegauf" 44

". . . the common purpose was clearly present: to cripple Japanese competitors" 48

". . . shared purpose of using them to hurt their common competitor" 48

A. The issue here involved relates solely to Singer's acquisition of Gegauf Patent No. 1 and the enforcement of that patent against *infringers* thereof. Restraint of non-infringing competitors is not involved.

There is a significant feature about the foregoing phrases used by the Government. It is that they all refer to the exclusion of *Japanese competitors* or *competing Japanese machines* and not, as they should, to the exclusion of machines *infringing* Gegauf Patent No. 1. There, of course, is a vast difference and this was specifically pointed out in Defendant's Motion to Affirm the judgment herein made to this Court on October 18, 1962 (pp. 21-23). The Government has now stopped referring to findings and statements that specifically relate to infringing machines as if they were statements relating to competing machines generally. In all other instances, however, it still throughout its brief refers to Singer's seeking to exclude its "Japanese competitors" or "competing Japanese sewing machines". It may be embarrassing to the Government that this case, by attrition resulting from the loss and abandonment by the Government of all other issues, has now resolved itself into a case involving solely the acquisition of a single patent and the enforcement thereof against *infringers* of that patent. The Government, however, should not confuse the issue, and the only issue, that is involved, by repeatedly referring to the exclusion of "Japanese competitors" and "Japanese competing machines."

Although the Government's contention relates solely to machines infringing Gegauf Patent No. 1 it, as can be seen, treats Japanese manufacturers and exporters of such infringing machines as a class separate and apart from other infringers. This has the effect of creating

a wholly artificial class. The only "class" that is involved in this case is one composed of all people infringing Gegauf Patent No. 1. That would still be true even if there were not a single infringer other than one of Japanese nationality. Singer did not wish to exclude with such patent anyone because of nationality; it wanted to exclude infringers.

In considering this fact it must be borne in mind that infringers are wrongdoers, depriving the patent owner of his property and violating the laws of the United States, laws which prevent unfair competition in trade and commerce and which render the selling of infringing products in competition with the owner of a patent unfair competition. Such unfair competition, under certain circumstances, is subject to restraint by the President upon recommendation of the Tariff Commission. *In re Orion Co.*, 71 F. 2d 458 (C.C. P.A. 1934). It is possibly subject to restraint by the Federal Trade Commission and certainly is subject to restraint by infringement actions. The Government, however, treats this "class" of wrongdoers as if they had a vested right *in infringing the Gegauf patent* and as if they were ordinary businessmen selling non-infringing merchandise in competition with the owner of Gegauf Patent No. 1.

B. Notwithstanding the Government's protestations to the contrary, its contention that a conspiracy existed is based on the premise that agreements were made or understandings reached between Singer and Gegauf outside of the written agreements between them.

The trial court found that outside of the written agreements themselves no agreements or understandings of any nature whatever were made between Singer and Gegauf

with respect to the use that Singer would make of any patent it owned or subsequently acquired and, specifically, that there was no agreement or understanding of any kind relating to the licensing or not licensing or the enforcement or non-enforcement of any patent, whether then owned or subsequently acquired (Op., R. 1683, 1698, 1714). The Government purports to accept the trial court's findings that there was no agreement or understanding between Singer and Gegauf outside of the written agreements and to accept the findings of the trial court as to the motivations of Singer and Gegauf in entering into each agreement (Govt. Br. 27). We submit, however, that the various above quoted phrases used by the Government clearly reflect, notwithstanding its protestations to the contrary, that, in fact, the underlying premise of the Government's contention is that an agreement or understanding was reached between Singer and Gegauf as to the use that would be made by Singer of the Gegauf patent.

The Government uses as a heading for its basic legal contention, the following:

> "B. AGREEMENTS * * * TO ACT TOGETHER SO AS TO EXCLUDE COMMON COMPETITORS VIOLATE THE SHERMAN ACT". (Govt. Br. 39)

Immediately under that heading it states that Singer and Gegauf, "motivated by a common desire to exclude their Japanese competitors * * * discussed and agreed upon concerted acts which could best effectuate this mutual purpose * * *" (Govt. Br. 39). The Government, at least twice, states that Singer and Gegauf "agreed together upon acts intended to enable one or both of them to exclude their Japanese competition * * * for their mutual

benefit" (Gov't Br. 23, 28). The Government almost completely unmasks the fact that it is relying upon the existence of an agreement or understanding between Singer and Gegauf. It states, that after the Singer-Gegauf cross-license agreement, "Gegauf could not have proceeded to license the Japanese without considering and giving weight to the *consistency of any such action* with *the spirit* of its prior *arrangements* with Singer".[12] This is followed by the statement that, after the Gegauf-Singer assignment agreement, Singer was under "an even greater impediment" and that "Singer could not, consistently with *the expectations* it had purposely engendered in Gegauf, then turn and license the Japanese without the consent of Gegauf" (Govt. Br. 43, 44, emphasis supplied). Here is pictured as complete and as burdensome an obligation as would be imposed by a formal written agreement. Yet according to the Government it is not relying upon an agreement. Such argument does not even dare to pay as much as lip service to an acceptance of the trial court's finding that there was no agreement whatever restricting licensing.

Possibly the Government considers that there was a phantom agreement. We think the court's finding covers all possibilities along that line, too, particularly since the Government before the trial court made precisely the same argument as above set forth (R. 443-44). After dramatically laying the foundation therefor the Government asserted that, under the very circumstances now pictured by the Government to this Court, any licensing by Singer

[12] How hollow the Government's claim is, is shown by the Government elsewhere in its brief, where in arguing the claimed deleterious effect of the provisions of the second sentence of Clause 1 it says: "The cross-licensing agreement did not give either Singer or Gegauf an exclusive license under the other's patents; it merely prohibited each from attacking the other. *Each was free to grant other licenses.*" (Govt. Br. 65, emphasis supplied)

would be a double-cross of Gegauf, and, apparently thinking well of Singer for the moment, the Government proclaimed that Singer "would not have stooped" to such "a stunt". The trial court ended the dramatics and punctured the concept of a phantom agreement by leaning over and asking, "Why wouldn't they have stooped to it? They are in business to make an honest dollar from honest, legitimate business deals * * *." (R. 444)

As will be noted, the trial court subsequently made express findings that the written Singer-Gegauf cross-license agreement constituted the entire understanding of the parties and that "there was no agreement or understanding about how each would prosecute, license or otherwise restrict its ownership of any patents it might obtain * * *" (Op., R. 1683); that, outside of the written Gegauf-Singer assignment agreement, "no agreement was made or understanding reached by the parties with respect to the licensing, enforcing or use of their patents" (Op., R. 1693), and that "there was no other understanding or agreement with respect to licensing or enforcing by infringement action or otherwise, any patent, then owned or subsequently acquired, or with respect to the use in any way of any such patent, alone or in conjunction with any other patent" (Op., R. 1714).

The Government had urged upon the trial court its theories, not only with respect to "agreement", "understanding" and "conspiracy" but also with respect to "exclusory combination", "mutuality of interest", "unity of purpose", and numerous other word combinations, which certainly included any idea the Government may now have with respect to phantom agreements. The trial court, answering the Government's various word combination contentions, found, "It is most striking that, throughout

their dealings were characterized by an absence of unity or identity of any common purpose or motive. Singer's sole interest was to protect its '401' machines against all infringing machines" (Op., R. 1693). The Government now asks this Court to accept its contention to the contrary rather than the trial court's findings, but does so under the guise that it is not challenging such findings.

C. There is no validity to the Government argument that Gegauf contributed to the conspiracy property worth millions of dollars for the benefit that Gegauf would gain in Europe through Singer's "crippling" the Japanese sewing machine industry.

With its contention before the trial court that Singer and Gegauf were joint conspirators benefiting alike *in the United States,* the Government ran into the fact that Gegauf in 1957 had imported exactly 1,600 machines into the United States (Stip. Par. 121, R. 64), that Gegauf did not want to grow in size (Gx. 62, R. 1162), and that Gegauf's interest was in Europe. That, in turn, left its argument that Gegauf's benefit *in the United States* was a motivation for its entering into a conspiracy quite unconvincing, as is demonstrated by the trial court's finding that:

> "Gegauf's prime interest was the protection of its machines in Europe from Japanese infringers—a danger which it was far from risking for the sake of dealing as it did with Singer. Gegauf gave but little weight to what might happen to Singer in the United States so long as Singer's danger did not affect Gegauf in Europe." (Op., R. 1693)

Thus the trial court in effect was finding that, notwithstanding the fact that "what might happen to Singer"

in the United States might similarly happen to Gegauf in the United States, Gegauf gave but little weight thereto, so long as it did not affect it in Europe, a clear finding that Gegauf had little interest in the United States as such.

Now that the trial court has found that Gegauf's interest was in Europe, not the United States, the Government's argument is devoted to a contention that Singer's "crippling" the Japanese sewing machine industry so that it could not compete effectively in Europe, was Gegauf's motivation for entering the conspiracy. (The Government cites no finding supporting such assertion and there is none.) It argues that, to that end, Gegauf contributed to the conspiracy the excess of the value of Gegauf's patent over the $90,000 paid to it by Singer. The Government, by citing and quoting Gegauf as its valuation expert, suggests a value therefor so colossal that Gegauf "could obtain *every year* many times more than the single payment of $125,000"[13] (Govt. Br. 35-36, n. 17; Stip. Par. 79, R. 50), a value obviously far exceeding the million dollars

[13] Here, once again, a self-serving statement made in a bargaining conference for the benefit of the person making it, is accepted as proof of the fact stated, although such "fact" is absurd on its face. The statement by Gegauf in bargaining with Singer, that he could receive each year many times more than $125,000, thus making it "worth" millions of dollars, is accepted as if it were an appraisal sworn to in open court by an unbiased, expert witness. We submit that the attempt to establish facts by taking statements, made in a party's own self-interest in a bargaining conference for the express purpose of gaining a point in negotiations, unsupported by any confirming evidence whatsoever, has in this case reached the point of utter and complete absurdity. This type of self-serving statement, not statements made against one's interest, but self-serving statements, constitutes the primary basis for the Government's contentions in this case (for two of numerous other examples, where it even relies on hearsay reports of such self-serving statements, see, *supra*, pp. 79-83).

Gegauf originally suggested he would like to obtain (Op., R. 1686), as to which the trial court, showing its ever present practical viewpoint, suggested to the Government that possibly Gegauf had been advised to "ask him for a million dollars and see how much you can get out of it" (R. 145). (He ultimately got $90,000.)

The Government further argues that Singer's magic in obtaining from Gegauf this gigantic contribution to their conspiracy consisted of Singer's continuing "to drive home" the point that Gegauf would benefit "more than Singer" by enforcement of the Gegauf patent in the United States, because the *"Brother Pacesetter"* machine, a Japanese-made "free-arm" type of machine infringing Gegauf's Patent No. 1, was in "direct" competition with Gegauf's free-arm type of machine, while Singer did not sell such type of machine (Govt. Br. 36). The Government refers to the Pacesetter machine as "a big selling" machine but the Stipulation of Facts which it signed shows that in the years 1957, 1958 and 1959 the following number of Pacesetter machines were imported into the United States for such respective years: 1202, 396 and 0 (Ex. S-26 (Gx. 192), R. 1335).

It seems incredible that the Government could seriously argue that Gegauf, whose total imports to the United States in 1957 had been only 1,600 machines (Stip. Par. 121, R. 64), a majority of which probably were "free-arm" machines (Gx. 62, R. 1122), could have contributed a value far in excess of $1,000,000, *motivated by the thought* that if importation of a few "free-arm" type machines infringing the Gegauf patent was stopped, or even by the thought that if *all* machines infringing such patent were stopped, the Japanese sewing machine industry would be "crippled" to such an extent that it "would

discourage Japanese competition in Europe" (Govt. Br. 36, 48). How fanciful can one get! Over the past several years the Japanese sewing machine industry has been either the second, third or fourth largest export industry in the Japanese Empire (Fairman, R. 805-06). The *total* imports into the United States *of all machines infringing Gegauf Patent No. 1* during the years 1957, 1958 and 1959 amounted to 31,142, 41,219 and 39,344 machines, respectively, and, for such years, amounted to 3.3%, 4.2% and 3.1%, respectively, of the total imports of Japanese-manufactured sewing machines *into the United States* in those years (Dx. 189, R. 1586), more than 1,100,000 such machines having been so imported in 1959. The percentage that such infringing machines represented of exports from Japan *throughout the world* during those same years were, respectively, *1.8%* (Dx. 189, R. 1586; Ex. S-31, R. 1623), *2.4%* (Dx. 189, R. 1586; Ex. S-32, R. 1624) and *1.8%* (Dx. 189, R. 1586; Ex. S-33, R. 1625).

Yet the Government here seriously argues that the "crippling" of the Japanese sewing machine industry so that it could not effectively compete in Europe was the benefit that was to be obtained by Gegauf out of this alleged conspiracy. The Government says, and hard as it is to believe, it is there in black and white: "When Gegauf became convinced that crippling the Japanese in the United States would help it in Europe, it became willing to sell to Singer, but only because it was so convinced" (Govt. Br. 48). It should be noted that though it might not be far-fetched to believe that if approximately *35,000 infringing machines* were excluded from the United States they *might* be sent to Europe (which may have been Gegauf's reason for being unenthusiastic about assigning the patent to Singer) the Government gets no

sustenance out of that. Any such occurrence would have been a clear detriment to Gegauf and could not possibly have constituted a motive for assigning his patent. It is, therefore, not only logical *but necessary* that the Government argue that the "crippling" of the whole Japanese sewing machine industry was the objective to be obtained, *a crippling which would eliminate such industry's capacity to compete effectively in Europe.* It is therefore an argument of necessity and it is neither strange nor unexplainable that the Government cites no authority in support of its fanciful, but unqualified, statement of fact.

D. There was no combination or conspiracy through concerted action for the mutual benefit of Singer and Gegauf.

When there is removed from the Government's case its reliance upon non-existent agreements or understandings between Singer and Gegauf, its mistaken theory as to the significance and the intent of Clause 1 of the cross-license agreement, its inferential attacks on the claims of a patent which it has conceded to be valid, its reliance upon motivations and purposes contrary to those found by the trial court and its contention that the Tariff Commission proceeding was brought to exclude the Japanese, in the face of the plain fact that it was brought to exclude all infringers, there is not much left. There is, in fact, hardly anything left other than the sale and purchase of a patent. There are, of course, various accompanying circumstances, as no sale and purchase can be made in a vacuum, but none of them, nor all of them combined, remotely resembles a combination or conspiracy under Section 1 of the Sherman Act.

To start with, there was no coercion of any nature by Singer or Gegauf upon the other, and there existed no

power or dominance of one over the other. Each was independent and free to act in its best interest. Up to the time that Gegauf made the assignment it was free to use its patent rights as it saw fit, including licensing or not licensing and enforcing or not enforcing such rights (Op., R. 1683). After Singer acquired the patent it similarly was free to use the patent as it saw fit. There was no agreement or understanding of any nature between Singer and Gegauf as to how Singer would use the patent or as to its licensing or not licensing or enforcing or not enforcing such patent. It was so found by the trial court (Op., R. 1693, 1714) and (except with respect to the Government's phantom obligation under the phantom contract) the Government accepts such finding (Govt. Br. 27).

Gegauf, of course, knew that Singer had invented and developed a machine which it was manufacturing and marketing under the patent as licensee, that there were infringers of the patent, the largest of which were Japanese, that Singer was paying a large sum of money for the patent, and that Singer had frankly stated to Gegauf that the reason it wanted to purchase the patent was that Singer could enforce it better than Gegauf could (Op., R. 1693-94). The mention or discussion of the obvious does not constitute a conspiracy or combination and accordingly neither the conveying nor the receipt of such information constituted any part of a conspiracy or combination.

Even if Gegauf had had a substantial interest in having Japanese infringing machines excluded from the United States (which it did not (pp. 104-08, *supra*)) and even if such interest as it had in enforcement had related solely to Japanese infringing machines (of which there is not the slightest evidence), and even if it had itself anticipated

that Singer would proceed only against the Japanese and not against Europeans (which in fact it had good reason to believe would not be the case (*supra*, pp. 40-41; Op., R. 1693-94; Govt. Brief in opposition to Motion to Affirm, p. 5)), there was no question of concurrent or joint action against Japanese infringing machines. After Singer's acquisition of the patent it was completely free to act in its own self-interest with regard to enforcing or not enforcing and with regard to licensing and not licensing, as it in fact did. Gegauf had no control or domination over Singer and did not have the capacity to affect its actions in any way. There was only one patent and there could be only one enforcer thereof. This is not a case of concurrent or parallel action and it is not a case of competing patents, as is repeatedly and erroneously asserted by the Government. It is, on the contrary, a case of competing applicants for a single patent, with the one having the earlier priority date and the right to the patent selling it to the other (Stip. Pars. 28-29, R. 32-33; Point III, pp. 91-92, *supra*). There literally was no power or opportunity for the two to act in unison when Gegauf and Singer each retained full control of the use of their respective patent rights at such time as it owned them, in succession, not concurrently.

A patent, of course, bestows no rights and it has only one function, and that is to exclude. Before this case we had never heard it suggested that the hope, belief or anticipation of the vendor of an item which can be used for one purpose only, that such item would be used for such purpose constituted a conspiracy. (See Govt. Br. 48.) In a far more delicate field than that involved in "reasonable restraint" questions, that is, in the field of price maintenance, mere reliance upon the individual self-interest of others to maintain suggested prices does not

fall within the reach of Section 1 of the Sherman Act. Any argument that it would do so in a case such as this is clearly unsustainable. *United States* v. *Parke, Davis & Co.*, 362 U. S. 29, 46-47 (1960), quite clearly shows that one who merely relies upon "individual self-interest" of retail dealers to bring about "general voluntary acquiescence which has the collateral effect of eliminating price competition", engages in no combination or conspiracy. Here, where no question of per se violation is involved, the principle is all the more applicable. If Gegauf relied, as it had to rely, upon Singer's own self-interest, it engaged in no combination or conspiracy.

Out of the fact that Japanese manufacturers and exporters were the largest infringers, the Government seeks to build a case that Singer was directing its efforts "against the Japanese". To the extent that anything is directed against the whole it of course is directed against the parts, large and small, and anything directed against all infringers is directed against the largest infringers as well as to the smallest. The Government's argument, however, raises the question: How can the owner of a patent enforce it without the greatest effect thereof being against the greatest infringers thereof? No amount of evidence that Singer wished to exclude all infringers and that it took steps to exclude all infringers or findings of the trial court to that effect, affects the Government in the slightest; it still finds a way, over and over again, to repeat that Singer was directing its efforts "against the Japanese". The trial court answered this argument quite pointedly. It said:

> "We find that the Tariff Commission proceedings were brought by Singer in a bona fide attempt to obtain protection for its '401' machine by an order

> excluding *all* unlicensed machines which infringed on Gegauf I patent. That these proceedings were motivated by the deluge of infringing Japanese imports and that Singer's energies were primarily directed to excluding these imports is not evidence of any unlawful conspiracy to exclude the Japanese and open the way for the European imports. The principal threat to the Singer machine came from the Japanese imports not from European production, but Singer sought to bar all infringing machines." (Op., R. 1710)

The Government argues that the trial court found that Singer "did not intend to license others under its patent" (Govt. Br. 44). It would have been entirely immaterial if Singer had affirmatively intended never to license anyone. The trial court's finding, however, was not to such effect. It was the finding that at the time of the purchase Singer had no affirmative intention of licensing others, and not a finding that Singer had the affirmative intention of never licensing another at any time. Singer in fact did license Sears, Roebuck (Govt. Br. 36, n. 17). It is significant that if Gegauf had any right to expect that Singer would not license and that it would enforce, the Gegauf patent for the "mutual" benefit of Gegauf and Singer, this action of Singer in licensing Sears, Roebuck was squarely in the teeth of Singer's obligation and of Gegauf's expectation, in that it seriously impaired, for Singer's benefit alone, the prospect for the successful prosecution of the Tariff Commission proceeding (Op., R. 1706; Gx. 408, R. 1173).

Even if Singer had a policy of not licensing patents under which it was producing and selling merchandise, Gegauf had no vested rights or interest in Singer's policy, which could be changed at any time to suit Singer's wishes. If Gegauf had any hope or expectation that Singer would

enforce the patent against anyone, it was the hope, and only the hope, that Singer, relying upon its own self-interest, would act in accordance with that self-interest. That he could have had nothing else is indicated by the fact that he was not so bold as to ask for an agreement that Singer would use its patent in any particular manner. Singer obviously would not buy the patent and then put the patent, its business and its own welfare at the disposal of Gegauf. The suggestion would seem on its face absurd when it is realized that at the time the patent rights were acquired by Singer, Singer was selling thereunder at the rate of 150,000 machines per year (Ex. S-24 (Gx. 190), R. 1333; Stip. Par. 17, last sentence, R. 28) while Gegauf was selling just 1,600 (Stip. Par. 121, R. 64).

The Government would have it both ways, however. It in effect says that if Singer and Gegauf operated wholly independently of each other it is just as bad as if they had agreed on a course of conduct. It says that Gegauf had no reason for an agreement since Gegauf was transferring its rights "to the United States, the very place where it knew Singer had a stronger motive to exclude the Japanese than Gegauf had" (Govt. Br. 48). In other words, according to the Government, if the transferor of a patent, having no promise or commitment whatever, relies upon the purchaser's having a motive to enforce the patent in its own self-interest, that becomes a combination or conspiracy as fully as if they had entered into an agreement to that end. The *Parke Davis* case, *supra*, is clearly to the contrary.

POINT VI.

THE CASES CITED BY THE GOVERNMENT DO NOT SHOW THE EXISTENCE OF ANY COMBINATION OR CONSPIRACY IN THIS CASE.

The Government asserts that the trial court held that no conspiracy or combination could be found "because", throughout their dealings the attitude of Singer and Gegauf was one of "suspicion, wariness and self-preservation"; neither party "was eager for the agreement finally made"; Singer's concern was Japanese competition in the United States while Gegauf's was in Europe; and each "was determined to put into the arrangement no more than was absolutely necessary" (Govt. Br. 45).[14] It then devotes two pages of its brief, and cites *United States* v. *General Electric Co.*, 80 F. Supp. 989 (S.D.N.Y.), *United States* v. *Line Material Co.*, 333 U. S. 287, and *United States* v. *Masonite Corp.*, 316 U. S. 265, in support of a contention that the existence of the foregoing facts did not make impossible a conspiracy between Singer and Gegauf (Govt. Br. 45-46). No one would argue that a conspiracy was impossible "because" of any or all of such facts combined and the trial court made no such finding. The mutual attitudes of "suspicion, wariness and self-preservation" shown "throughout the dealings," and their other facts found by the trial court and referred to by the Government, clearly made the existence of a conspiracy between Singer and Gegauf quite unlikely and the trial court obviously cited them as indicating such unlikeliness and not as a holding that they made a conspiracy impossible. Such facts, together with other facts as found by the trial court, taken together, clearly support a finding that no conspiracy existed.

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[14] Elsewhere it states that the court so held "because the only agreements between Singer and Gegauf were the three [written agreements] it had found * * *" (Govt. Br. 27).

The Government cites three conscious parallelism cases (Govt. Br. 44) as demonstrating that a combination or conspiracy can be formed without the existence of a formal agreement: *Eastern States Lumber Ass'n* v. *United States*, 234 U. S. 600; *Interstate Circuit* v. *United States*, 306 U. S. 208; *United States* v. *Masonite Corp.*, 316 U. S. 265. These conscious parallelism cases have not read out of the Sherman Act the requirement for an agreement in *conspiracy* cases. It is true that a *combination* under the Act can exist without any agreement, express or implied. *United States* v. *Parke, Davis & Co.*, 362 U. S. 29, 43 (1960). But in combination cases not involving agreements there is some dominating power, economic or other, exerted by one participant or group of participants, without legal justification, to compel the adherence of others to a desired course of action. When, however, one is dealing with a case not involving some dominating force directing or controlling the conduct of others, an agreement, express or implied, is an essential ingredient. This is demonstrated by *Theater Enterprises, Inc.* v. *Paramount Film Distributing Corp.*, 346 U. S. 537 (1954) and *Delaware Valley Marine Sup. Co.* v. *American Tobacco Co.*, 297 F. 2d 199 (3d Cir. 1961), *cert. denied*, 369 U. S. 839 (1962).

In *Theater Enterprises* eight competing movie distributors refused to deal with plaintiff, a suburban Baltimore theater. There was no direct evidence of an agreement among the distributors. In sustaining the trial court's refusal to grant a directed verdict for plaintiff, this Court stated:

> "The crucial question is whether respondents' conduct toward petitioner stemmed from independent decision or from an agreement, tacit or ex-

press. To be sure, business behavior is admissible circumstantial evidence from which the fact finder may infer agreement [citing, among others, the *Interstate Circuit* and *Masonite Corp.* cases, *supra*]. But this Court has never held that proof of parallel business behavior conclusively establishes agreement or, phrased differently, that such behavior itself constitutes a Sherman Act offense. Circumstantial evidence of consciously parallel behavior may have made heavy inroads into the traditional judicial attitude toward conspiracy; but 'conscious parallelism' has not yet read conspiracy out of the Sherman Act entirely." (pp. 540-41)

The *Report of the Attorney General's National Committee to Study the Antitrust Laws* (1955) states, in reference to this language, that the Committee "is in full accord with" that reasoning, and adds: "'Conscious parallelism' is not a blanket equivalent of conspiracy. Its probative value in establishing the ultimate fact of conspiracy will vary case by case. Proof of agreement, express or implied, is still indispensable to the establishment of a conspiracy under the antitrust laws." (p. 39)

The *Delaware Valley* case involved five tobacco manufacturers, who gave all their business with Philadelphia shipping to the same distributor, refusing to deal with plaintiff, another distributor. There was no direct evidence of agreement among the manufacturers, though there was evidence from which a jury could infer the awareness of each manufacturer of its competitor's actions. Each manufacturer introduced evidence that it was in its economic interest not to do business with plaintiff. In holding for defendants the court relied on *Theater Enterprises* and stated:

"It has been argued that such uniform decisions, made under economic circumstances tending to make

> the act of one firm or company dependent upon the reactions of others, violate Section 1 even though conspiracy is absent. With this we cannot agree. Section 1 specifies means as well as ends." (p. 207)

An examination of the conscious parallelism cases cited by the Government, and referred to above (p. 115), shows that in each case the "means" were present. In each case there, in fact, was involved either an inferred agreement or else a combination with a dominating power exerted by one or more persons on others, or both. In the instant case it is conceded that Singer and Gegauf made no agreement, express or implied, concerning the enforcement or the licensing of Gegauf Patent No. 1 and it is clear that Gegauf had no power to dominate Singer with respect thereto.

It is anomalous that in this case, in which the Government charges that Singer engaged in an unreasonable restraint of trade, it cites, almost wholly, cases involving clear *per se* violations of Section 1 of the Sherman Act.

The following cases, for instance, all involve plainly *per se* illegal arrangements between owners of competing patents or between a patent licensor and licensees: *United States* v. *United States Gypsum Co.*, 333 U. S. 364 (Govt. Br. 40), involving six corporations controlling by agreements the terms of sale of all gypsum in the United States; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436 (Govt. Br. 26, 40), involving the fixing and controlling of prices that could be charged by approximately 11,000 jobbers, through licensing refiners who could sell only to jobbers licensed by the licensor (who were refused licenses if they did not maintain prices) and by fixing the prices at which the refiners could sell

to such jobbers, which affected 70% to 85% of all gasoline sold; *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20 (Govt. Br. 40), involving price-fixing agreements among 16 corporations producing 83% of the products in the industry; *United States* v. *Line Material Co.*, 333 U. S. 287 (Govt. Br. 40, 41, 45), involving patentees cross-licensing in such manner as to fix minimum prices; *United States* v. *Krasnov*, 143 F. Supp. 184, *aff'd*, 355 U. S. 5 (Govt. Br. 49), involving a conspiracy to monopolize and agreements of each conspirator not to license without the consent of the other parties and price-fixing agreements; *United States* v. *General Electric Co.*, 80 F. Supp. 989 (Govt. Br. 45), involving numerous patentees forming a world cartel to monopolize world markets and agreements to fix prices; and *United States* v. *National Lead Co.*, 63 F. Supp. 513, 524 (S.D.N.Y.), *aff'd*, 332 U. S. 319 (Govt. Br. 26, 66).

The *National Lead* case, *supra*, cited by the Government in support of the principle that two patent owners cannot agree not to license a third competitor, involved an interchange of patents formed with the purpose of regimenting an industry, the making of territorial allocations and the suppression of Atlantic traffic. Judge Rifkind found that the agreements applied to "inventions not yet imagined" and that, —

> "They applied to commerce beyond the scope of any patents. They extended to a time beyond the duration of any then-existing patent. Ethyl Gasoline Corporation v. United States, 1940, 309 U. S. 436, 456 [Govt. Br. 26, 40]. • • • They extended to countries, such as China, where no system of patent monopolies exists. Interstate Circuit, Inc. v. United States, 1939, 306 U. S. 208 [Govt. Br. 26, 44] • • •

They regulated the disposition of the products after sale by the licensees . . . ."

The only cases not involving *per se* restraints cited by the Government are *Standard Oil Co.* v. *United States*, 283 U. S. 163 (Govt. Br. 24, 40, 41), and *United States* v. *Besser Manufacturing Co.*, 96 F. Supp. 304, *aff'd*, 343 U. S. 444 (Govt. Br. 49).

The *Standard Oil* case involved no illegal agreement and, to the contrary, supports the legality of any restraints imposed by enforcement of the Gegauf patent. In that case the defendants controlled 55% of the total cracking capacity and the cracked gasoline produced thereby constituted 26% of the total gasoline production. This Court stated: "Unless the industry is dominated, or interstate commerce directly restrained, the Sherman Act does not require cross-licensing patentees to license at reasonable rates others engaged in interstate commerce." (p. 172)

The *Besser* case involved express, written agreements among four conspirators controlling 65% of the industry, not to license competitors without the consent of the other parties.

In dealing with *American Tobacco Co.* v. *United States*, 328 U. S. 781 (Govt. Br. 24, 41), the Government compares the exclusory power of the single Gegauf Patent No. 1 with the exclusory power of the three biggest tobacco companies in the United States engaged in conspiring to, and conducting operations intended to, fix prices (Govt. Br. 41).

Direct Sales Co. v. *United States*, 319 U. S. 703 (Govt. Br. 24, 47) has no application whatever to this case. It is not an antitrust case and deals solely with a conspiracy to

violate the Narcotics Act, such conspiracy itself being illegal. That the parties there tacitly agreed to violate the Narcotics Act and thereby violated the conspiracy statute was obvious. It would be interesting indeed to know what the Government's attitude would be if it now discovered that these two criminal distributors of narcotics had been brought to book by the combined "cooperative" action of two legitimate distributors of narcotics, who had "cooperated" to the fullest extent possible to unearth evidence of the activities of these criminals and to obtain their conviction, thus, "for their mutual benefit," eliminating these "common competitors" for many years to come. If we add to the foregoing an assumption that the narcotics sold had been stolen from these "cooperating" distributors, the Government would have a case almost completely analogous to what they *charge* in this case.

Judge Learned Hand, writing the opinion for the Court in *Fashion Originators Guild* v. *Federal Trade Com'n*, 114 F. 2d 80 (2d Cir. 1940), *aff'd*, 312 U. S. 457 (1941), sustained in part an order of the Federal Trade Commission enjoining boycott activities by the Guild and its members against competitors appropriating both published and unpublished designs. He pointed out that the conspirators had no property rights in published designs that were being appropriated and furthermore that the conspiracy was not limited to stopping such appropriations but extended far beyond and amounted to a restraint of legitimate trade. Judge Hand, however, carefully pointed out that under certain circumstances a group boycott "can be justified". He gave the following example:

> "• • • and in the case at bar for example, it would be a lawful form of self-help for members of the Guild to refuse in combination to deal with retailers

> who knowingly bought dresses of those who had stolen 'unpublished' designs; or who got access to them by any other crime, or by a breach of promise not to use them; further, it would be lawful to refuse to deal with a retailer who knowingly bought of one who copied 'unpublished' designs, without the author's consent, however the copier gained access to them." (p. 84)

In conformity therewith the Court modified the order of the Federal Trade Commission to allow the Guild to continue its practices of self-help in "cases in which a retailer knowingly buys dresses, access to the design of which has been procured (1) by fraud, bribery or any other crime, (2) through some breach of contract, or (3) before the design has by 'publication' come into the public demesne." (pp. 85-86)

POINT VII.

THE TRANSACTIONS BETWEEN SINGER AND GEGAUF DID NOT RESULT IN DOMINANCE OF THE MARKET OR IN ANY ILLEGAL RESTRAINT ON COMPETITION

A. In restraint-of-trade cases conduct challenged must be tested in the light of the competitive market.

The cases hold that any restraining actions challenged must be tested in the light of the competitive market. As stated in the *Report of the Attorney General's National Committee to Study the Antitrust Laws* (1955):

> "Cases arising under Section 1 of the Sherman Act may pose at least four main issues. * * * Third, in what market is the effect of the challenged arrangement to be tested, and what evidence is

relevant in establishing that market as a fact to be found by the court? Finally, in that relevant market, does the conduct challenged 'unduly' restrain competition?

"• • • [T]he definition of relevant market [is a problem] common to both Sections 1 and 2 • • •." (p. 12)

In *Standard Oil Co.* v. *United States*, 283 U. S. 163 (1931), the defendants controlled 55% of the cracked gasoline capacity and cracked gasoline constituted 26% of the total gasoline production. This Court, holding that under the circumstances of that case there was no illegal restraint, stated:

"Unless the industry is dominated, or interstate commerce directly restrained, the Sherman Act does not require cross-licensing patentees to license at reasonable rates others engaged in interstate commerce." (p. 172)

In *United States* v. *Columbia Steel Co.*, 334 U. S. 495 (1948), this Court in holding that an acquisition by U. S. Steel did not unreasonably restrain trade relied upon the degree of competition in the relevant market. *United States* v. *E. I. du Pont de Nemours & Co. (Cellophane)*, 351 U. S. 377, 395, n. 23 (1956), we think again clearly indicated that the relevant market is a determining question under Section 1.

In the *Cellophane* case this Court established that the test for determining the market which is applicable to all cases under the Sherman Act is reasonable interchangeability stating:

"In determining the market under the Sherman Act, it is the use or uses to which the commodity is put that control." (p. 395)

This Court specifically reaffirmed the *Cellophane* doctrine of reasonable interchangeability in a conspiracy to restrain case, *United States* v. *International Boxing Club*, 358 U. S. 242, 250 (1958).

The Government must concede as it did below that market considerations may weigh heavily in Section 1 cases "insofar as they are necessary to apply the rule of reason" (Plaintiff's Post-Trial Brief (unprinted), Tr. 6444). This Court only last month in *White Motor Company* v. *United States*, 83 Sup. Ct. 696, said:

> "That 'rule of reason' normally requires an ascertainment of the facts peculiar to the particular business. As stated in *Chicago Board of Trade* v. *United States*, 246 U. S. 231, 238 * * *:
>
> > 'Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied.'" (p. 701)

In *United States* v. *Columbia Pictures Corp.*, 169 F. Supp. 888 (S.D.N.Y. 1959), 189 F. Supp. 153 (S.D.N.Y. 1960), the court relied upon an analysis of the market in which the contracting parties competed and ascertainment of the effect of the operation of the agreement in that market.

In *United States* v. *Huck Mfg. Co.*, CCH Trade Reg. Rep., Par. 70,714, p. 77,850 (E.D. Mich. 1963), Huck owned patents and had entered into a continuing arrangement with Townsend under which no other firm was permitted

to engage in the manufacture and sale of lockbolts. The court, in granting motions for judgments of acquittal, stated that:

> "In every case that has come to my attention in which a patent arrangement was held invalid, the group of firms taking part were in some manner dominant." (p. 77,852)

In *Cutter Laboratories* v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80, 91 (9th Cir. 1949), the pooling arrangement involved an agreement establishing royalties. The court assumed the existence of monopoly power but nevertheless permitted a full inquiry into the nature and extent of the pooled patents, the competitive conditions in the industry and the operation and effect of the pool therein, in what is characterized by the *Report of the Attorney General's National Committee, supra* (p. 245, n. 96) as a sound approach and "a well-reasoned opinion" holding the pool lawful. Thus it is clear that even if Singer and Gegauf had agreed that Singer would enforce Gegauf Patent No. 1 and Singer were dominant in the market, the Government thereby would not have established any illegal restraint of competition. It would still have to establish that the restraint was unreasonable.

B. The right to enforce a valid patent covering a product made and sold by the owner thereof is not affected by the fact that there may be few non-infringing competing machines in the market.

The Government argues that Singer with Gegauf Patent No. 1 dominates the United States market and it sets forth figures based upon a competitive market consisting solely of sewing machines with multiple cam zigzag

mechanisms (Govt. Br. 5-7). By so doing, the Government directly challenges the findings of the trial court that the Singer 401 machine is in a competitive market consisting of straight stitch sewing machines with zigzag attachments, manually operated, replaceable cam and multiple cam machines. The facts supporting the trial court's finding with respect to the competitive market, not set forth in this Point, are set forth in the Appendix hereto.

There are two fallacies in the Government's contention. The first is that it would make the slightest difference whether, through the enforcement of Gegauf Patent No. 1, Singer had 10% or 90% of a market composed of such multiple cam machines. *Cole* v. *Hughes Tool Co.*, 215 F. 2d 924 (10th Cir. 1954), *cert. denied*, 348 U. S. 927 (1955); *United States* v. *L. D. Caulk Co.*, 126 F. Supp. 693 (D.C. Del. 1954). The very purpose of a patent is to grant a monopoly. If not a single manufacturer produced a single non-infringing competing machine for the entire life of Gegauf Patent No. 1 and Singer, solely through enforcement of the patent and without any predatory activities on its part, maintained a 100% monopoly with respect to such machines, it would be entirely legal. It would be solely the result of the lawful enforcement of a valid patent. Therefore, even if it were assumed that Singer and Gegauf agreed that Gegauf would transfer his patent to Singer and that Singer would effectively enforce it, such agreement would have been entirely legal. A patent owner, whether he be the original owner or the assignee thereof granting a license back, may agree with the licensee that the patent owner will enforce the patent for their mutual benefit. *Virtue* v. *Creamery Package Mfg. Co.*, 227 U. S. 8 (1913); *Hazeltine* v. *Avco Manufacturing*

Corp., 227 F. 2d 137 (7th Cir. 1955), *cert. denied*, 350 U. S. 987 (1956); *U. S. Consolidated Seeded Raisin Co.* v. *Griffin & Skelly Co.*, 126 F. 364 (9th Cir. 1903); *United States* v. *L. D. Caulk Co.*, 126 F. Supp. 693 (D.C. Del. 1954).

This Court, in *Virtue* v. *Creamery Package Mfg. Co.*, *supra*, said:

> "• • • The patents under which the articles were manufactured were stated [in the agreement], and it was provided that the Owatonna Company should protect the Creamery Package Manufacturing Company from all suits for infringement, defend the validity of the patents, and promptly attack infringers. This provision is especially urged by plaintiffs as showing a common and illegal purpose between the companies. It has not that quality. It is but an assurance of title to the rights conveyed." (227 U. S. at 33)

The second fallacy involved in the Government's contention is its assertion that sewing machines with multiple cam zigzag mechanisms constitute the competitive market. If a housewife wishes to buy a sewing machine which will sew zigzag stitches, whether she desires to make functional or very fancy zigzag patterns, she has the choice of a variety of makes and types of machines at a variety of prices. Competing available sewing machines include multiple cam, replaceable cam, manually operated and straight stitch sewing machines with zigzag attachments (Appendix, 1a-11a, 14a-15a). The trial court found:

> "• • • If it were necessary to our decision, we would find the relevant market to be automatic zigzag sewing machines of four types: machine carried multicam zigzag, replaceable cam, manually oper-

> ated and the straight stitch sewing machine with zigzag attachment. These four machines, we find, are sufficiently unique to constitute a separate market within which these machines are reasonably interchangeable for the use to which they are put. * * *" (Op., R. 1716-17)

These findings are supported by a plethora of evidence which included not only the testimony of defendant's witnesses, exhibits in the form of competing machines and samples of the work produced by these machines but also included admissions of plaintiff's counsel and plaintiff's own witnesses. (See Appendix)

C. The facts show that Singer and Gegauf did not dominate the United States market and the vigor of foreign competition precluded any possibility of an unreasonable restraint by Singer.

The undisputed evidence shows that the sewing machines covered by Gegauf Patent No. 1 constituted a minimal percentage of the market in which they compete. By 1957, when the Japanese and Europeans had over 65% of the United States household sewing machine market, multiple cam machines (other than those of Singer and its licensees) which would have been covered by such patent, if issued, were only 2% of such market. The comparable figures for 1958 were 68% and 2.7%, and, for 1959, 70% and 2.3%. In 1959 all sewing machines covered by this patent, including those of Singer and its licensees, constituted only 11.5% of the market in which these sewing machines competed. The small percentage of the market which was affected by the Gegauf patent negatives any capacity for dominance over the Japanese and Europeans, let alone a dominance capable of exer-

cising any unreasonable restraint on competition. Even if there had been an agreement between Singer and Gegauf, the assertion of patent rights against infringers, particularly where these patent rights affect such a small proportion of competition, would have constituted no illegal restraint of the market. The restraint of infringers is a necessary concomitant to the whole policy of protection and encouragement of inventions which originates in the Constitution and which is given effect in the patent laws.

The Government asserts that with one minor exception Singer is "the sole" United States manufacturer of household sewing machines and that its only competition in the United States comes from imports (Govt. Br. 5). This statement without any accompanying explanation is misleading. The fact is that the Japanese dominate the United States market.

In 1947 Singer and six other domestic manufacturers of household sewing machines produced the entire supply of sewing machines for the American market, no such machines having been imported from Japan and less than 2,500 of such machines having come from Europe (Op., R. 1666; Dx. 185, R. 1581). In the year 1959, however, 1,100,000 sewing machines were imported from Japan and over 100,000 non-Singer machines were imported from Europe (Op., R. 1666; Dx. 184, R. 1579; Dx. 185, R. 1581). By 1959, with the exception of a small manufacturer of machines to specifications on orders from a single domestic customer, Singer was the sole remaining manufacturer of household sewing machines in the United States (Op., R. 1666; Stip. Pars. 10-11, R. 26).

The devastating effect of this foreign competition is illustrated by the fate of the sewing machine manufactur-

ing facilities of White Sewing Machine Corporation. White and Sears, Roebuck & Company, its customer, had been fighting "a side by side but losing battle" over these years in trying to sell White's lines of sewing machines made in the United States in competition with the foreign-built imports. When Sears discontinued selling the White machines and started importing machines for distribution by Sears, White had no chance of supporting its sewing machine manufacturing facilities. Confronted with this situation, White discontinued its manufacturing operations in the United States in 1957 and had its lines of sewing machines produced for it in Japan and Germany (Op., R. 1666-67; Dx. 170, R. 1569; Bruder, R. 788-89; Barnum, R. 931-32).

Although Singer has been able to withstand the assault upon that market by Japanese manufacturers and exporters, who were and are controlled in practically all matters by the Japanese Government (Fairman, R. 801-09; Sogi, R. 886-98; Dx. 176-83 (unprinted), Tr. 5676-5742; Gx. 202 (unprinted), Tr. 5122-32), Singer's share of the market dropped from approximately 57% in 1947 to approximately 30% in 1959, while the Japanese share of the market in that period went from nothing to over 60% (Dx. 192, R. 1588). During this same period Singer's domestic production as a percentage of the United States market dropped from approximately 57% in 1947 to 21% in 1959 (Dx. 192, R. 1588; Dx. 172, R. 1570; Dx. 184, R. 1579; Winter, R. 900). During that period every manufacturer of sewing machines in the United States, with the minor exception noted above, failed to withstand the Japanese competition and ceased manufacture of such machines save Singer alone (Op., R. 1666). Professor Cohen, an expert economist, testified at the trial that

"This is perhaps one of the most competitive blows that U. S. industry has suffered in quite awhile" (Cohen, R. 915).

Singer survived because of its reputation for quality, reliability and service going back more than a century, backed by approximately 1600 wholly-owned retail stores, leased space in 80 department stores and 270 independent retailers throughout the country (Op., R. 1668; Bruder, R. 782-83; Stip. Par. 9, R. 25-26). Singer, however, during this period increasingly relied upon imports of its foreign manufactured sewing machines, which totaled 193,842 sewing machines in 1959 (Dx. 172, 184, R. 1470, 1579; Winter, R. 900).

The vigor of foreign competition in the United States precluded any unreasonable restraint by Singer. As evidenced by the undisputed facts, it was impossible for Singer when it acquired the Gegauf patent application unreasonably to restrain the competitive market (Appendix, 11a-14a).

That Singer was and is confronted with intensive and vigorous competition from Japanese sewing machines is indisputable. The organized competition Singer faces made it entirely reasonable for Singer to acquire the Gegauf application covering the 401 machine.

Research has failed to uncover a single case in which an American company has been charged by the United States Government with trying to exclude products supplied by a foreign cartel covered by a patent of narrow scope which are manufactured and sold in the United States by the owner of such patent. In the past such products have been excluded by the Tariff Commission as unfair competition.

Conclusion

We doubt that, in the 14 intervening years, there has been any antitrust case before this Court to which is so applicable the admonition given to the Government on its appeal in *United States* v. *Yellow Cab Co.*, 338 U. S. 338 (1949). This Court there said:

> "What the Government asks, in effect, is that we try the case *de novo* on the record, reject nearly all of the findings of the trial court, and substitute contrary findings of our own.
>
> * * * * * *
>
> "* * * The judgment below is supported by an opinion, prepared with obvious care, which analyzes the evidence and shows the reasons for the findings. To us it appears to represent the considered judgment of an able trial judge, after patient hearing, that the Government's evidence fell short of its allegations—a not uncommon form of litigation casualty, from which the Government is no more immune than others."

We respectfully submit that the appeal herein should be dismissed and the judgment of the District Court affirmed.

Respectfully submitted,

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